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Bahrain ... 0.650 Din	Jordan ... 450 Fils	Portugal ... 90 Esc.
Belgium ... 45 B.Fr.	Kenya ... Shs. 16.00	Qatar ... 6.50 Rials
Canada ... C$ 1.20	Kuwait ... 500 Fils	Rep. of Ireland ... 70 P.
Cyprus ... C.£ 0.70	Lebanon ... [illegible]	Saudi Arabia ... 6.00 R.
Denmark ... 8.00 D.Kr.	Libya ... L.Din. 0.25	Spain ... 110 Ptas.
Egypt ... 100 P	Luxembourg ... 45 L.Fr.	Sweden ... 7.00 S.Kr.
Finland ... 7.00 F.M.	Madeira ... 106 Esc.	Switzerland ... 2.20 S.Fr.
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Israel to Free 31 Shiites, Says Move Isn't Tied To U.S. Hostages

Reuters

JERUSALEM — Israel announced Sunday that it would free 31 Lebanese Shiite Moslem detainees. But Defense Minister Yitzhak Rabin said the move was not connected to 40 American hostages held by Shiites in Beirut, and Shiite representatives said they had no plans to respond.

"We are releasing 31 Shiites, and it is in accordance with the policy

Israel has been in a quandary over how to respond to the Beirut hostage crisis. Page 2.

which was established in the past and announced in the past," an Israeli Army spokesman said.

Israel is holding 766 Shiites and other Lebanese transferred in April to Atlit prison from south Lebanon. Their release has been demanded in exchange for the freeing of passengers and crew of a hijacked Trans World Airlines plane.

[In Washington, President Ronald Reagan said he had ruled out the use of a military operation to gain the hostages' release, The Associated Press reported. He also declined to draw any connection between Israel's promise to free the 31 Shiite prisoners and the hostages.

[On the Israeli decision to release the Shiites, he said: "I'm not going to comment one way or another on that, because we have avoided the idea of linkage there." Asked whether he had ruled out a military response to gain the hostages' release, Mr. Reagan answered: "Yes."]

In Beirut, a spokesman for the Shiite Amal militia said the release of the 31 prisoners would not change the hijackers' plans.

"So far there are no plans to release any of the hostages in return," the spokesman said.

[Nabih Berri, leader of Amal, said: "I want the 700 plus," The Associated Press reported. Mr. Berri was speaking in an interview in Beirut with the CBS television network.]

The 37 passengers and three crew members are being held in unknown locations in Beirut under the protection of Mr. Berri, the Lebanese justice minister who heads Amal.

"We had promised to release all hostages taken on the plane in return for the release of the Atlit detainees," the militia spokesman said. "This number is insufficient compared with that of the detainees."

The Israeli announcement, on the 10th day of a crisis that began when a Boeing 727 was hijacked over Greece on June 14, came amid the first signs of movement in the hostage crisis since the middle of last week. There were reports earlier in Beirut of a plan to resolve the problem and of Swiss contacts with the Shiites and Israeli and American officials.

Israeli leaders have said the detainees eventually would be freed depending on the level of guerrilla activity inside Israel's self-declared security zone in south Lebanon.

The latest release of Shiites "is not linked whatsoever to the problem the U.S. and Israel and the whole world are facing today with the hostages in Beirut," Mr. Rabin said in an interview with CBS.

Mr. Rabin said the United States had not asked Israel to free the men and that they were being released after they appealed against their detention to a special committee headed by an Israeli district court judge.

None of the prisoners has been charged with any crime and the International Committee of the Red Cross has called their transfer to Israel illegal.

In Washington, Secretary of State George P. Shultz also played down the Israeli move, saying it

(Continued on Page 2, Col. 5)

The Associated Press

Firemen look at damage at Tokyo International Airport in Narita after a suitcase taken off a Canadian Pacific plane exploded, killing two baggage handlers and injuring four persons.

Explosion at Tokyo Airport Kills 2

Washington Post Service

TOKYO — A powerful bomb exploded Sunday at Tokyo's international airport in baggage taken off a Canadian Pacific Airlines plane that had begun its flight in Toronto, the same city from which an Air India airliner took off before crashing off Ireland, the apparent victim of a bomb.

The suitcase bomb at Tokyo's airport killed two baggage handlers and injured four persons when it exploded in a work room about 45 minutes after Canadian Pacific Flight 003, a Boeing 747, had landed.

The plane had begun its flight at Toronto, stopped at Vancouver, and then took off Saturday afternoon for Tokyo, carrying 374 passengers, Japanese police said.

The airliner arrived about 15 minutes ahead of schedule, police reported. There was speculation that the bomb had been intended to explode during the flight but had failed to go off on schedule.

Aviation specialists in Tokyo also speculated that the Canadian Pacific and Air India incidents were the work of the same person or persons. However, investigators have released no evidence directly establishing such a connection.

A Canadian Pacific official here said that company rules did not require the search of baggage that is carried in the cargo hold.

329 Are Feared Dead In Indian Jet's Crash At Sea; Blast Suspected

The Associated Press

SHANNON, Ireland — An Air India jumbo jet crashed into the Atlantic Ocean south of Ireland on Sunday, and all 329 people aboard were feared dead. Indian officials said they suspected an explosion had caused one of the worst disasters in aviation history.

Irish officials said the Boeing 747 had vanished from their radar screens without sending a call for help. Search aircraft and boats sent to the crash site found debris and bodies strewn across several miles of ocean.

In New Delhi, India's minister of state for civil aviation, Ashok Gehlot, said, "Explosion is considered a possibility in view of the fact that the wreckage is spread over a wide area." He added, "Sabotage is a distinct possibility."

Francis Dagama, a regional director for Air India, said in London that the carrier had received "over the past few months threats of hijack, et cetera, from Indian groups, all political." He did not cite any specific group.

But a spokesman for the Canadian Foreign Ministry, Reynald Doiron, said the department had no confirmation that a bomb was involved. "As far as we know, no claim whatsoever has been made by any individuals or groups," he said.

Flight 182 was the first commercial jet to crash on the trans-Atlantic route, according to the International Air Transport Association in Geneva. An Air India statement released in New York said there were 307 passengers and 22 crew members aboard.

Reuters

Francis Dagama, an Air India official in London, said the airline received threats "over the past months."

Derek Menezes, Air India's manager in Montreal, said 278 passengers were Canadians. In New Delhi, Air India officials said that many of the Canadian citizens were of Indian origin, and that the passengers included 77 children and two infants.

Flight 182 originated in Toronto, took on passengers in Montreal and was to refuel in London before flying to New Delhi and Bombay.

At Narita Airport near Tokyo on Sunday, a bomb exploded in baggage taken off a Canadian Pacific Airlines jet whose flight had originated in Toronto. It was not clear whether the two bombings were related.

In Montreal, police removed three suspicious pieces of luggage from the Air India jet before the flight took off, a spokeswoman for the Transport Ministry said. She said dogs trained to sniff out explosives had barked at the luggage, and it had triggered metal detectors.

But when the bags were checked several hours after the crash, no explosives or weapons were found in them, said Rubin Ginzburg, general manager of airports.

The United States, Britain, Ireland and Iceland sent scores of ships, planes and helicopters to the crash site of the Air India jet, 120 miles (194 kilometers) southwest of the Irish coast.

By mid-afternoon, 57 bodies had been pulled from the sea and were being flown to Cork Airport, Irish officials said.

Debris, in chunks no bigger than 10 feet square, was strewn in an oval several miles wide, according to a British rescue helicopter pilot.

(Continued on Page 2, Col. 7)

Experts Criticize Airport Security in Athens, Beirut, Third World Nations

By Constance Rosenblum
New York Times Service

NEW YORK — Airport security varies widely around the world, but a review of procedures shows that in general the methods practiced in developing countries tend to be lax while those in North America and the Communist bloc tend to be stringent.

In Europe, the review shows, the major airports usually follow a high standard of security. A notable exception is Athens, where hijackers on June 14 seized a TWA plane, some of whose passengers are still held hostage in Beirut.

The review was conducted by correspondents for The New York Times and supplemented by interviews with State Department officials and representatives of the International Air Transport Association and the International Federation of Airline Pilots Association. Officials of the Federal Aviation Administration and the Central Intelligence Agency declined to be interviewed.

In arriving at an assessment of what is and is not a safe airport, the experts stressed that the quality of the equipment in use is not always the determining factor. Equally important, they noted, are the training and attentiveness of the personnel and the efficiency with which they conduct security checks and use such things as hijacker profiles to recognize security threats.

Referring often to Athens, they also emphasized the importance of airport design, particularly the way passengers are routed through a building and how tightly access to airstrips is controlled.

The review showed that safety procedures lagged in much of Latin America, particularly Rio de Janeiro, Mexico City, and Lima, Peru, as well as in parts of Africa and the Middle East.

Among airports receiving high marks for safety were those in Tokyo, Tel Aviv, Zurich, London, and most of Western Europe. Airports in the United States and Canada are also considered highly secure.

Some of the most rigorous airport security is in the Soviet Union, China, Vietnam and Poland. Security was also described as high in Bangkok, Singapore, and Kuala Lumpur, but the emphasis was seen as focusing on preventing drug smuggling rather than hijackings.

In the Middle East, Beirut is considered a major and persistent trouble spot, while Cairo and Amman, Jordan, are regarded as unusually stringent in security.

Among airports receiving high marks for safety were those in Tokyo, Tel Aviv, Zurich, London and most of Western Europe.

In general, representatives from the pilots and airlines organizations agreed with the findings of the review, particularly the assessment of Beirut and Athens.

"There are a very small handful of airports, perhaps half a dozen, that are of serious concern for us worldwide, not all of them in the Middle East," said Harry Atterton, director of public relations for the International Air Transport Association.

[Evangelos Kouloumbis, a Greek government spokesman, said last week in an interview with news agencies that the treatment the Athens airport was getting now was unjust. He said that among 211 hijackers around the world from 1978 to 1984, two had been on flights leaving Greece while 43 had started in the rest of Europe.]

Mr. Atterton, whose organization is the trade group for airlines that fly international routes, declined to identify specific problem airports.

But he said there were "one or two in Africa and in South America," adding that airports near or linked by air routes to known trouble spots were in greatest danger.

As for airports with tight security, Mr. Atterton singled out Tokyo, which he described as "incredibly thorough," and Tel Aviv, which he said had by necessity become expert in this area.

Rodney Wallis, the international association's security chief, said that in such regions as Southeast Asia, preventing hijacking must compete with efforts to control drug smuggling.

"The potential exists for attention to smuggling to detract from attention to preventing hijackings," he said. "We mustn't allow that to happen."

The association regularly receives reports from its member airlines on the safety of airports. When problems are indicated, Mr. Wallis said, the organization recommends improvements to the appropriate airport or government. Then, if improvements are not forthcoming, individual airlines might take steps to strengthen their own security, as was the case with TWA at Athens.

Erwin von den Steinen, of the department's Office of Aviation, praised European airports as having "a fairly consistent level of concern."

But he described Athens as having been "a trouble spot for years" and characterized Rome as having had sporadic problems related to the ease with which people can get aboard an aircraft.

According to Captain Laurie Taylor, executive secretary of the International Federation of Airline Pilots Association, airport security is better in those countries in which government and industry cooperate on airport safety, such as the United States, France and Britain.

In parts of Latin America and Asia, where the level of screening may depend on whether a flight is international or regional, the degree of security varies enormously, he said. He specifically said of the airports in Colombia that there was "just virtually no security at all.

"A year or two ago they had three hijackings in one day," he said.

Following are details from the review of security at major airports:

Europe

LONDON — Heathrow Airport is consistently cited by travelers and officials as one of the most security conscious in the world. Though British officials

(Continued on Page 5, Col. 1)

Iran Adopts Defensive War Tactics

United Press International

TEHRAN — Ayatollah Ruhollah Khomeini has ordered his forces in the Gulf war with Iraq to wage a defensive war, in a tactical switch from Iran's former "human wave" attacks across the front lines, according to an Iranian official.

Ali Reza Afshar, chief of staff of Iran's Revolutionary Guards, said Saturday that Ayatollah Khomeini had "issued an overall order for a defensive jihad."

Mr. Afshar said the paramilitary Revolutionary Guards were using special techniques similar to guerrilla warfare.

Observers said Iranian attacks in the last two weeks seem to have been rapid, small-scale operations, sometimes capturing territory or destroying a few Iraqi military outposts before returning to base.

Five such attacks have been waged recently in the southern and central sectors of the frontline between the two countries.

The new technique varies greatly from the large-scale offensives launched since March 1982, where thousands of troops were sent in "human waves" across enemy lines, resulting in heavy casualties.

Mr. Afshar's disclosure was the second indication in the last week that Iran may be easing its hard-line stance in prosecuting the five-year-old Gulf war.

Last Wednesday, Iran proposed that an international court be created to resolve the war. The proposal did not mention the usual Iranian condition for a settlement — the removal of Iraq's president, Saddam Hussein.

5 Injured in Explosion

Five persons were injured Saturday when a car bomb exploded in Tehran, according to IRNA, the

(Continued on Page 2, Col. 7)

The Associated Press

Crew holds a news conference on Discovery. Front from left, John O. Creighton, Shannon W. Lucid and Daniel C. Brandenstein; rear, Prince Sultan Salman al-Saud, Steven R. Nagel, John M. Fabian and Patrick Baudry.

Discovery Retrieves Satellite, Prepares to Land

By Lee Dye
Los Angeles Times Service

HOUSTON — The space shuttle Discovery retrieved an observatory satellite from orbit, accomplishing the final major operation of its flight, and the two non-U.S. astronauts in the crew took their countrymen on televised tours of their living and working areas.

Prince Sultan Salman al-Saud of Saudi Arabia described the view from a hatch on Saturday and said, "It only shows God's might in creating all of this."

The prince told his countrymen, "When I do my prayers, I'm not able to do a complete *Sujood*, because it may cause sickness." The Sujood is one of four Moslem prayer positions, in which forehead and nose are touched to the floor.

The prince said his first two days in space last Monday and Tuesday "were not easy" because, like half of all astronauts, he had difficulty adjusting to weightlessness.

Patrick Baudry, a French test pilot, showed French audiences Discovery's kitchen and the special rations, including canned lobster, that he took into space to supplement the bland fare that U.S. astronauts eat.

In Houston, Larry Bourgeois, a flight director at mission control, said Discovery's crew had "completed 100 percent of our major objectives" for the mission. These included the launching of three communications satellites, all of which were working properly.

The only important error of the flight came Thursday, when the shuttle was in the wrong position as it passed over a Hawaiian laser tracking station for an experiment that was part of U.S. research for a space-based missile defense.

The experiment was repeated Friday and the results were so satisfactory that the U.S. Air Force passed up an opportunity to do it again Saturday.

The main operations of the flight ended Saturday with the retrieval of Spartan, a compact X-ray observatory that Discovery had dropped off Thursday 220 miles (354 kilometers) above Earth.

The self-contained unit, about the size of a telephone booth, recorded data from several instruments in an effort to learn more about the violent activity at the center of clusters of galaxies, and possibly about the black hole that is believed to be at the center of the Milky Way. A black hole is an extremely dense object with gravity so powerful that even light cannot escape its gravity.

Discovery, commanded by Daniel C. Brandenstein, 42, spent most of Sunday getting ready for Monday's landing at Edwards Air Force Base in California. The landing is set for 6:14 A.M.

West Germany to Support France On Technology Plan at EC Summit

By Henry Tanner
International Herald Tribune

BONN — The government of Chancellor Helmut Kohl, ending several months of hesitation, has decided to take a leading role in favor of Eureka, the French-sponsored project for European technological cooperation, at the European summit meeting this week in Milan, according to West German officials.

The officials said Mr. Kohl would urge the European Community partners to seek agreements on specific projects in such fields as high-speed computers and microelectronics. This would allow EC leaders to give instructions to finance and research ministers to take initial steps.

West Germany is ready to set aside significant amounts of funds if concrete agreement emerges in Milan, the officials indicated. The Milan summit meeting will take place Friday and Saturday.

The government decision in favor of Eureka, made Friday at a cabinet meeting, came shortly after a West German delegation returned from talks in the United States on American research into missile defenses. The delegation was headed by Horst Teltschik, Mr. Kohl's chief adviser on foreign and security affairs.

The goal of the delegation, which included representatives of high-technology industries as well as government experts, was to explore the possibilities of West German government participation in the U.S. research. The U.S. administration has named the program the Strategic Defense Initiative, or SDI.

Mr. Teltschik submitted a preliminary report to the government Wednesday. Leading West German newspapers reported that the findings of his delegation had been inconclusive and disappointing.

Mr. Teltschik and the experts found that U.S. officials wanted support from European governments for SDI, but that they had little interest in any other European government involvement, according to the reports.

The Americans, the reports said, had only vague answers to what was a key question for many Europeans, the transfer back to Europe of technological expertise gained through collaboration in SDI.

The reports about Mr. Teltschik's impressions have not been officially denied.

On the contrary, the government appears to be encouraging the impression that it is no longer considering SDI, and indeed that it has decided to help fund European efforts in weapons development as well as in the peaceful high-technology objectives of Eureka.

It has been taken for granted, however, that several leading West German industrial companies would participate in SDI research as well as in Eureka or other European projects.

An emphatic West German endorsement of Eureka would be a victory for Foreign Minister Hans-Dietrich Genscher, who had supported the plan from the beginning and had warned against the strategic and technological implications of SDI.

Mr. Teltschik, the leading figure on foreign policy in Mr. Kohl's administration, had been regarded as one of the chief advocates of SDI before his return from the United States.

Officials stressed over the weekend that the government now was united in its stand on Eureka.

The French, while continuing to stress that Eureka was never meant as a substitute for SDI, are clearly pleased that government interest in Europe has shifted to their proposal.

The external relations minister, Roland Dumas, put the Eureka plan forward in April, clearly before the project had been fully elaborated. It is now conceded in France that the reason for the hurry was to prevent SDI from being the only major project for international technological cooperation.

The French tactic seems to have worked to the extent that Eureka provided an indispensable alternative for Mr. Genscher and others in European governments, who doubted the wisdom of SDI.

In spite of repeated declarations that Eureka was meant as a purely civilian research program, it has become clear that West German and French officials also are eager to move forward, probably separately of Eureka, in industrial and research cooperation for the development of military weapons.

INSIDE

Israel Has Been in a Quandary on Response to the Hijacking

By Thomas L. Friedman
New York Times Service

JERUSALEM — Israel has been in a quandary over how to respond in the Beirut hostage crisis. Israeli experts on terrorism believe it is an indirect result of the government's decision last month to trade 1,150 prisoners, most of them Palestinians, for three Israeli prisoners of war.

The experts say that by giving in last month to the demands of a Palestinian guerrilla leader, Ahmed Jebril, a move widely viewed here as a blunder, Israel helped to create the atmosphere in which the Beirut hijacking took place.

Now, the experts contend, Israel has been trying to compensate for this by refusing to concede to the hijackers' demands for the release of 766 detainees unless the United States formally appeals to the Israeli government to, in effect, "cave in" to the hijackers' demands.

This has created a great deal of strain between Jerusalem and Washington, and officials here acknowledge that coordination between the two governments has been inconsistent and generally mismanaged by both sides.

The result, said Zeev Schiff, the military editor of the daily newspaper Ha'aretz, is that the hijackers have already won a major victory: Israel and the United States, instead of fighting the terrorists jointly, have been at odds with each other.

The connection between the Beirut hijacking and the Israeli-Palestinian prisoner exchange last month is multifold, the experts say.

To begin with, said Ariel Merari, a leading Israeli expert on terrorism, there is the price the hijackers have demanded.

This is not the first time Shiites have hijacked an airplane, he noted, but this is the first time they have made demands on Israel that are so enormous. The hijackers requested not only the return of 766 Lebanese and Palestinians held in an Israeli prison, but also abandonment of Israel's effort to maintain a "security zone" in southern Lebanon, as well as an end to Israeli support for the largely Christian militia called the South Lebanon Army.

NEWS ANALYSIS

"Israel has proven that it is willing to pay under pressure a price that previously would have seemed incredible," Mr. Merari said of the Palestinian-Israeli exchange. "Now, even if you just take Nabih Berri's demands for the return of the 766, it is still a much higher price than ever demanded by the Shiites. Not only can one see a link between the price demanded by the Shiites and the previous prisoner exchange for the 1,150, but also the expectation for their fulfillment."

If Israel freed 1,150 Palestinian and other prisoners for three Israelis, said Mr. Merari, then "Berri can at least expect to get back 766 of his men whom Israel was planning to release anyway for nothing. Berri is saying to us and to the American public: 'Surely if Israel was ready to release so many Palestinians it could release a fewer number of our guys to save the Americans.' "

Added Mr. Schiff: "Most people feel that even if we had no other choice, by releasing the 1,150 we crossed a certain threshold. Although many people here still won't admit it, we lost a certain standing in the international community. The hijackers know this."

However, Prime Minister Shimon Peres maintained Friday that the price being demanded by the Shiite hijackers cannot be linked with the Palestinian-Israeli exchange.

"This is the eighth hijacking perpetrated by the Shiites," said Mr. Peres. "The seven previous hijackings occurred before the release of the convicts from our prisons. Did this prevent the hijacking of planes?" He added that the planning for this hijacking, "so far as we know," took place "before we released the prisoners from our jails, so there is no connection between them."

Whether there is a direct connection or not, the Israeli public and leadership clearly believe that there is at least the appearance of a possible connection, and this has very much influenced their handling of the crisis, experts here say.

"The public repercussions of the release of the 1,150 were so unpleasant for the government that it has turned 180 degrees," said Mr. Merari. "Now it is posing as the tough guy, saying we are not always weak, those were special circumstances."

This attitude appears to be particularly strong in Defense Minister Yitzhak Rabin, who is responsible for Israel's dealings in the hostage affair. Mr. Rabin was the focus of much of the criticism over the release of the 1,150, even though the entire cabinet voted for it and the unfavorable negotiating conditions had been the work of the previous Likud government, led by Yitzhak Shamir.

Mr. Rabin, who as prime minister in 1976 ordered Israel's daring strike to free hijacked passengers at Entebbe Airport in Uganda, has clearly been stung by having been cast in news reports as the one who gave in on releasing the 1,150.

"Rabin was trapped by the decision of the Shamir cabinet to begin the negotiations under certain very bad conditions," said Mr. Schiff. "He knows that as a result he lost the special status he had as the man who initiated Entebbe. The hero of Entebbe was trapped and wants to go back to the old days.

"As a result he has become super sensitive about this whole issue, saying that the terrorists will not push us around and that if the Americans want us to make concessions they will have to come to us and say so out loud. In a sense Rabin is trying to return to the position he had before he had to yield the 1,150," Mr. Schiff said.

Some Israeli analysts believe, however, that Israel has chosen the wrong issue on which to try to win back its reputation for not giving in to terrorism. Rather than making life difficult for the Americans, they contend, Israel should be looking for every chance to coordinate with Washington to resolve this crisis in a way that will minimize the gain for the hijackers and maximize the credibility of American and Israeli counterterror policies, as well as of their alliance.

"I don't think it is very smart to make the United States have to beg or tell it to go handle its own problems," said an expert on terror. "This situation is not worth jeopardizing American-Israeli relations over, because our two countries are going to have to stand shoulder-to-shoulder again many times in the future. The next time, it may be us who needs the Americans."

WORLD BRIEFS

Greece Reasserts Plan to Close Bases

ATHENS (AP) — Prime Minister Andreas Papandreou has announced to parliament that his government is determined to have four U.S. military bases removed from Greece by the end of 1988.

He was presenting his government's program Saturday to the 300-member parliament following the June 2 election victory of his Panhellenic Socialist Movement. His government signed a renewable five-year agreement on the bases with the United States in September 1983. The agreement allows the United States to maintain four military bases in Greece and about 20 smaller installations. It can be terminated by either side.

Mr. Papandreou also reasserted his intention to keep Greece out of North Atlantic Treaty Organization military exercises. He said the alliance has continued to ignore Greece's problems with Turkey, also a NATO member.

Cossiga Backed for Italian President

ROME (AP) — Leaders of the dominant Christian Democratic Party announced Sunday that they were unanimously proposing for president of Italy Francesco Cossiga, a former prime minister and now Senate president.

The recommendation by the party's ruling council was expected to be approved later in the day when the 365 "great electors" from the Christian Democrats voted by secret ballot on the party's nomination.

Italy's president is elected to a seven-year term by 1,011 "great electors," members of the Senate, Chamber of Deputies and representatives from the country's 20 regions. President Sandro Pertini, 88, a Socialist, said he did not want to serve another term.

Leader of Canary Islands Resigns

LAS PALMAS, Canary Islands (Reuters) — The head of the Socialist government of the Canary Islands, a region of Spain, has resigned after opposition groups rejected the terms of Spain's entry into the European Community, officials said Sunday.

They said Jerónimo Saavedra Acevedo, president of the regional government, resigned Saturday after the Canary Islands parliament voted, 30-27, against the accession treaty signed in Madrid on June 12, on the ground that it would damage the islands' economy.

Thousands of farmers in the islands have protested in recent months at the conditions negotiated for the islands, which preserve their free-port status and other fiscal privileges but treat their rich market produce as if it came from a non-EC country.

For the Record

An East European refugee, believed to be a Czechoslovak citizen, was shot and killed Sunday by Yugoslav border guards as he tried to cross the Yugoslav-Austrian border, police said in Graz, Austria. *(AP)*

Turkish Cypriots voted Sunday in elections for a 50-member parliament in the northern third of Cyprus. *(AP)*

Pope John Paul beatified a German monk, Peter Friedhofen, and an Italian monk, Benedetto Menni, Sunday at a ceremony in St. Peter's Basilica. *(Reuters)*

The Parti Québécois on Sunday set Sept. 29 as the date for an election to choose a successor to Premier René Lévesque, who has announced his resignation as head of Quebec's ruling party. *(Reuters)*

Shiite Forces End Siege Of 2 Palestinian Camps

Compiled by Our Staff From Dispatches

BEIRUT — Shiite Moslem forces lifted their siege of two Palestinian refugee camps over the weekend after fighting to drive out their defenders for more than a month.

Members of the Shiite Amal militia ended Sunday their blockade of West Beirut's Chatila camp. A siege on the suburban camp of Borge Barajni was lifted Saturday.

A Syrian-sponsored truce announced last week halted hostilities at the two camps. Nearly 600 people have died and more than 2,500 have been wounded since the Amal militia attacked the camps of Chatila, Borge Barajni and Sabra on May 19.

The militia, backed by the mostly Shiite Moslem troops of the Lebanese Army's 6th Brigade, had besieged the camps in an effort to prevent the Palestine Liberation Organization from rebuilding the power base it lost when Israel invaded Lebanon in 1982.

Bulldozers cleared the main street in Chatila of sandbagged positions and earth barricades Sunday, and witnesses said three truckloads of food donated by the UN Relief and Works Agency were moved into the camp.

The operation was supervised by representatives of Palestinian factions, the Amal and the Druze Progressive Socialist Party militias and two Syrian observers.

The scene was one of utter destruction. In the maze of alleyways and low concrete buildings that make up the camps, entire streets were wrecked and spent cartridges, ammunition clips and shrapnel littered the ground.

In other developments, Israeli planes drew anti-aircraft ground fire on Sunday as they flew reconnaissance runs over eastern Lebanon, but no hits were reported, according to radio reports.

In southern Lebanon, members of the Israeli-backed South Lebanon Army militia shelled two Shiite Moslem villages in the security zone established during the Israeli withdrawal and clashed heavily with Moslem forces east of Sidon, security sources said.

Israeli troops ringed the Lebanese border village of el-Tireh during the fighting and ordered residents to hand over 15 men suspected of rocket attacks on the South Lebanon Army, they added.

(AP, Reuters)

The Associated Press

Nepalese police dressed in riot gear patrolling the main street of Katmandu after the bomb explosions.

Nepal Officials Suspect a 'Foreign Hand' in Bombings

The Associated Press

KATMANDU, Nepal — Authorities investigating bomb explosions that killed seven persons in Nepal have found clues indicating possible foreign involvement, a government spokesman said.

"A foreign hand cannot be ruled out," Chiran S. Thapa, press secretary at the palace of King Birendra, said Saturday. He said it was felt that the planning of the bombings was "probably beyond the capability of any Nepali group or persons."

Authorities said Sunday that 130 persons had been detained for interrogation about the blasts that killed seven persons and injured 27 last week in Katmandu and three towns along the border with India.

Among those arrested was an Indian, Rajinder Singh, who police said was stopped in the border town of Bhadrapur while carrying three bombs, fuses and batteries. Another man, a Nepalese identified as Niraj Kumar Gupta, was arrested near the border town of Janakpurdham with 56 explosive devices. Police said he confessed to being a courier for an Indian in Uttar Pradesh state.

Indian intelligence agencies were investigating whether Sikh terrorists helped Nepalese political extremists in making the explosives and planning the coordinated bombings, according to The Hindu newspaper of Madras, India.

A group calling itself the Janwadi Morcha, or Revolutionary Front, claimed responsibility for the attacks in a statement delivered to an Indian newspaper, The Telegraph. The statement said the organization seeks to overthrow the monarchy and establish a democratic republic in Nepal.

329 Feared Dead in Jet Crash

(Continued from Page 1)

A oil slick snaked through the wreckage.

Joe Kerin, chief controller of Ireland's Marine Rescue Coordination Center, said that the jet's flight data recorder, or "black box," had been located. He said it was under 2,200 feet (668 meters) of water, but there "shouldn't be any problem" in recovering it.

The flight was cruising normally at 31,000 feet (9.4 kilometers) and was one hour, 40 minutes away from London's Heathrow Airport when air controllers in Shannon lost sight of it on radar. The local time was 8:13 A.M.

Minutes later, two jets nearby picked up an electronic distress signal of the type that is triggered automatically when a plane hits water.

Hugh O'Connor, spokesman for the Shannon regional traffic control center, said Flight 182 had checked in six minutes earlier and was given clearance to proceed to London. "There was no indication that anything was wrong," he said.

Then, Mr. O'Connor said, "He just vanished off the scope. Immediately he was called and there was no reply."

Pilots of two other jetliners above the Air India plane were told to look out their windows. But neither could see any sign of the plane, controllers said.

The Boeing 747, considered one of the safest planes, can cruise with just one engine, said David Learmount, air transport editor of Flight International Magazine. At 31,000 feet, it would be able to glide for a half-hour before crashing, he said in a British Broadcasting Corp. interview.

He told the BBC that principal evidence for an explosion having caused the crash was the fact that the pilot, H. S. Narendra, 57, had not radioed a mayday call.

The pilot can do that either by voice or with a button under his thumb on the control column, even if all generator power is out, Mr. Learmount said.

"A bomb happens to answer a the questions," he said. "It answers why the crew didn't have time to radio a distress signal. It answers the question why the wreckage is spread so widely because the aircraft obviously broke up before it hit the sea."

Sunday's crash was the third deadliest air disaster.

The worst crash was in March 1977, when two 747s collided on the runway of the airport at Tenerife on Spain's Canary Islands, killing 582 people. In March 1974, 346 people were killed when a Turkish DC-10 crashed northeast of Paris.

Man Is Hurt in Vatican Jump

Reuters

VATICAN CITY — An Italian man stripped off his clothes Friday and threw himself from the papal altar in St. Peter's Basilica to the shrine four meters (13 feet) below, breaking an arm and a leg, police said Saturday. The man, Antonio Grippo, 37, was taken to a hospital, where he said: "I wanted to fly."

Younger Chinese Named To Shanghai, Army Jobs

By John F. Burns
New York Times Service

BEIJING — Deng Xiaoping's campaign to rejuvenate China's bureaucracy has been stepped up with the naming of a new Shanghai party chief and the promotion of three 42-year-old officers to top military posts.

The change in Shanghai, the country's largest city and its industrial and commercial center, appeared to stem partly from dissatisfaction in Beijing with the pace at which the city has put into effect the market-oriented policies at the heart of Mr. Deng's program.

The new party secretary in the city, Rui Xingwen, was previously minister of urban and rural construction and environmental protection, which has played a major role in the large building program that has accompanied the economic growth of recent years. He replaces Chen Guodong.

Other reports confirmed the appointment of a new party secretary, Chen Huiguang, 46, who is an engineer, in the Guangxi-Zhuang Autonomous Region bordering Vietnam. Changes in top posts had previously been announced for the provinces of Sichuan, Shandong, Jilin, Guizhou, Hebei, Jiangxi and Tibet. Most of the new appointees are in their 40s and 50s.

The military appointments involve positions on the general staff in Beijing. At 42, the new generals are at least 20 years younger than the men they replace. The announcement noted that in addition to their youth, those promoted were military academy graduates.

He Qizong becomes a deputy chief of the general staff, Zhou Wenyuan becomes a deputy director of the general political department, and Zong Shunliu becomes a deputy director of the logistics department.

The government announced last week the appointment of nine officials to head ministries that play a crucial role in Mr. Deng's modernization drive. At the same time, he has been pressing ahead with a shakeout of regional military commanders and top Communist Party and government officials in the provinces.

The latest changes are part of a process that began at least three years ago at lower levels of the bureaucracy. Mr. Deng, 80, insisted that the retention of power at all levels by aging, poorly educated officials who began their careers in the revolutionary period was a major obstacle to economic and social change.

He started a drive to ease these officials aside, some of them into retirement and others into advisory positions. By the end of last year, about 900,000 party and government officials had been sent into compulsory retirement, and a process to weed out the armed forces' officer corps had begun.

Iran Changes Tactics in War

(Continued from Page 1)

Iranian news agency, The Associated Press reported from Nicosia.

The agency, monitored in Cyprus, said several people were arrested in connection with the explosion.

■ **Iran Detains Freighter**

Kuwait has demanded that Iran release a Kuwaiti-registered freighter from detention, officials said Sunday, The Associated Press reported from Kuwait.

They said that Foreign Ministry officials asked the Iranian Embassy in Kuwait to communicate to Tehran their demand for the release of the 23,800-ton Al Muharraq.

The freighter was intercepted, boarded, searched and seized by the Iranian Navy in the Gulf of Oman off the Strait of Hormuz last Thursday.

It was carrying a load of general cargo from Europe when it was taken to an unknown Iranian port on the Gulf, shipping sources in Kuwait reported.

Israel to Free 31 Shiites, Denies Link to U.S. Hostages

(Continued from Page 1)

would not affect the American hostages.

Negotiations on the release of the Americans had broken down over the issue of the 766 prisoners held in Israel since April.

The Israeli government had said it long planned to release the prisoners but would not do so in exchange for the American hostages without a direct request from the White House.

The United States has said any request would be a capitulation to terrorism.

An International Red Cross spokesman in Beirut said he expected the prisoners to be freed Monday on the coast road between the Israeli frontier and the south Lebanese port city of Tyre.

Amal says Israel originally promised to free all the prisoners by the time its army left south Lebanon. It announced completion of the pullout earlier this month, but 766 of 1,200 prisoners earlier deported to Israel were not freed.

Of the 1,200 detainees brought to Atlit, Israel released 30 on April 11, 37 on April 18, 150 on May 20 and 249 on May 29.

Mr. Rabin's announcement came amid signs of movement in the hostage crisis, including a report of a four-point plan for a solution and Swiss contacts with Israel to brief it on talks Swiss officials have had with Mr. Berri.

In his interview, Mr. Rabin would not say whether additional prisoners would be released, but said Israel would not undermine the U.S. policy of "standing firm against terrorism."

"If Israel would come out and do it voluntarily we practically would undermine the American policy of standing firm," he said. "No one would believe that Israel has done it voluntarily without being asked by the U.S. to do it."

The State Department earlier Sunday described news reports from Lebanon that the U.S. ambassador in Beirut had forwarded to Washington a four-point proposal aimed at breaking the deadlock were "purely fictitious."

The respected Beirut daily An Nahar said the plan included "the release of all U.S. hostages, followed by a Washington statement condemning all violations of international law, including of Lebanese prisoners in Israel."

An Nahar did not say who drafted the proposals, which it said also called for the International Red Cross to begin talks for the release of the Lebanese prisoners in Israel a week after the hostages were released.

Lebanon would impose strict security at Beirut International Airport, reinforce army deployment there and hold talks with militias aimed at preventing its being used for hijacks, the paper said.

A senior official of Amal, meanwhile, said the militia had accepted a Swiss offer to help end the drama.

Switzerland said Saturday that Mr. Berri had told the Swiss foreign minister, Pierre Aubert, that he would be ready to take the hostages to Switzerland. But the senior Amal official, Ghassan Siblani, declined to confirm Sunday that Amal was ready to move them to Swiss territory.

■ **Former Leaders Back U.S.**

Former President Gerald Ford and four other former Western leaders voiced support Saturday for the U.S. refusal to bend to the demands of guerrillas holding the hostages, United Press International reported from Colorado.

Mr. Ford, the chairman of a gathering of political and business leaders for discussion of international events, joined former President Valéry Giscard d'Estaing of France, former Chancellor Helmut Schmidt of West Germany and former Prime Ministers James Callaghan of Britain and Malcolm Fraser of Australia in a statement supporting President Reagan.

AMERICAN TOPICS

Bishops' Document Is No Dead Letter

The Roman Catholic Bishops' pastoral letter on the American economy, whose first draft released last November was criticized by conservative Catholic laymen as an attack on free enterprise, is still an issue. The letter, which proposes more help for the poor, including a revamped welfare system, was discussed at the national bishops' conference in Collegeville, Minnesota, this month, The New York Times reports.

Cardinal John J. O'Connor of New York, himself a favorite of conservatives, said he wished the business community could have attended. "They'd be relieved to see the integrity of the process," he said.

A final version of "The Pastoral Letter on Catholic Social Teaching and the U.S. Economy" is expected to be voted on next year.

Short Takes

Arkansas stocked muskrats decades ago for their valuable pelts. In the 1970s, the market faded and the muskrats proliferated, burrowing into rice paddy dikes, which drained the fields. So alligators were stocked to eat the muskrats. Now the alligator population is soaring. "I'll tell you what concerns me," said Howard Hammans, a rice farmer in Stuttgart. "What are they going to bring in to eat the alligators?"

Colleges and universities are turning away from the "grade inflation" brought on in the 1960s by student demonstrations and by young men facing the draft who pressed for better grades so they could stay in school and avoid going to Vietnam. According to a survey of 1,600 institutions by Washington State University, "we're heading back to pre-1965 grading standards."

Atlantic City keeps opening new casino hotels, although the 10 already in business report a loss of $157,000 for the first quarter of this year on revenues of $506 million. This compared to a first-quarter profit last year of $24.9 million on revenues of $489 million. Expanding beyond the day-trip market of people living within 150 miles (about 240 kilometers) is difficult because the city lacks scheduled air service and an adequate convention center.

Baltimore is taking its "squeegee kids," who offer unsolicited windshield washings at traffic lights, off the streets and putting them in "squeegee stations" set up in vacant lots. In Wilmington, Delaware, meanwhile, "gas lads" offer to pump gasoline for patrons of self-service stations. Winter is the most profitable time, when motorists like to remain in their cars. But some people are concerned about the hazards of spilled gasoline.

Notes About People

When **Jason Robards Jr.** first played the part of Hickey, the fiftyish salesman in Eugene

UPI

Jason Robards Jr.

O'Neill's "The Iceman Cometh," off-Broadway in 1956, he was 33 but was made up to look older. He will play the role again in a Washington revival in August. Now 62, the actor said, "I'm a little old for it, but I think if I tuck in my chin, I can get away with it."

Sammy Davis Jr., the entertainer, says that his nearly dying from alcohol-related liver disease two years ago inspired him to "give up booze." Now he is sponsoring the Sammy Davis Jr. National Liver Institute at the University of Medicine and Dentistry of New Jersey.

Todd Duncan, the original Porgy in the 1935 premiere of George Gershwin's folk opera "Porgy and Bess" and now a prominent Washington music teacher, has been named the first winner of the Paul Hume Award, named for the music critic emeritus of The Washington Post.

— *Compiled by* ARTHUR HIGBEE

Soviet Embassy in Mexico Called 'Safe Haven' for Spying on U.S.

By Joel Brinkley and Robert Lindsey
New York Times Service

MEXICO CITY — U.S. officials say the Soviet Embassy here is increasingly being used to mount espionage operations against the United States and that it has become a major conduit for the illegal diversion of advanced technology to the Communist world.

Soviet intelligence officers "in essence have a safe haven here," John Gavin, the U.S. ambassador to Mexico, said last week.

A senior Mexican government official acknowledged that there were espionage operations in Mexico City. But he defended Mexico's policy of permitting one of the largest overseas contingents of the Soviet intelligence and internal security agency, the KGB, to operate with virtual impunity.

Mexico, he said, is "an open country," and any country is allowed to have as many diplomats stationed in Mexico City as it chooses.

New attention has been focused on Mexico City because of the arrest of John A. Walker Jr., who is accused of running an extensive spy ring for the Soviet Union.

Agents searching Mr. Walker's home in Norfolk, Virginia, found receipts from a trip he apparently made to Mexico in 1975, and a senior U.S. official said the CIA and the FBI were trying to determine what role the Soviet Embassy may have played in Mr. Walker's activities.

So far, the official said, agents have found nothing conclusive. But they know that numerous Americans accused of spying for the Russians have acknowledged using the Soviet Embassy here to meet their Soviet contacts.

Diplomats at the Soviet Embassy declined to be interviewed for this article.

Mexican government officials declined to offer official comment on questions concerning the Soviet presence, although some were willing to discuss the matter on the condition that their names not be used.

U.S. counterintelligence specialists estimate that at least 150 KGB officers are working out of the embassy under cover as diplomats, clerks, chauffeurs, journalists and in other jobs.

Increasingly, these specialists say, the KGB officers assigned to Mexico City have received technical training so that they can manage Soviet efforts to steal American military and industrial secrets.

They add that such officers use not only American agents, but also what Mr. Gavin called "dummy companies" set up in Mexico to buy advanced American technology and then conceal its ultimate destination: the Soviet Union or Soviet bloc nations.

Many U.S. officials say they can not fully contain the Russian spy problem as long as the Soviet Union maintains a large, unrestricted espionage operation in Mexico City, less than 700 miles (1,128 kilometers) from the United States.

> **Mexico is an 'open country' where any nation may have as many diplomats as it chooses.**
>
> —*Senior Mexican official*

American and Mexican officials say the Mexican government allows Soviet agents to work here virtually without restraint as long as their target is the United States, not Mexico.

Although the CIA maintains a large station, a senior American official said the CIA officers could not effectively monitor Soviet activities because they were far outnumbered by agents of the KGB and other Eastern bloc nations that maintain embassies here.

Under a longstanding cooperative effort, the Mexican authorities record calls to and from the Soviet Embassy, and transcripts of the conversations are given to the CIA, according to sources in the Mexican government.

But American officials say they cannot rely entirely on cooperation from the Mexican authorities. After a recent scandal involving allegations of bribery and drug dealing in the Federal Security Directorate, some senior American officials are worried that the directorate has been penetrated by the KGB.

A senior Mexican official called that charge "preposterous."

Mexico has fewer than 50 people stationed at its embassy in Moscow. But the Soviet Embassy here, with more than 300 people, is one of the largest Soviet diplomatic missions in the world, even though Moscow has few official dealings with Mexico. Less than 1 percent of Mexican exports are sold to the Soviet Union.

The fundamental problem, U.S. officials say, is the Mexican acquiescence in the Soviet spying.

"We have a very clear idea of what our long-range strategic interests are, and they are not with the Soviet Union," an Interior Ministry official said.

But Mexican and U.S. officials say anti-Americanism is such a central part of Mexican political life that Mexico tolerates the Soviet espionage precisely because it irritates the United States.

Mexico has long had cordial relations with the Soviet Union. And Mexican and American officials said the Mexican government believed that if it tolerated a large Soviet and Cuban presence, the Communist countries would not interfere in Mexican affairs.

U.S. officials say Mexico could ask the Soviet Union to maintain an embassy no larger than is actually needed for its diplomatic mission in Mexico.

But the United States has never asked the Mexicans to order the Soviet Union to reduce its embassy staff, several American officials said.

Richard Helms, a former director of the CIA, said such a request would be counterproductive because "the Soviets would then ask the Mexicans to order us to reduce the size of our embassy, and you'd just end up with hash."

Reagan Pledges to Avenge Marines

President Vows to Bring Salvador 'Jackals' to 'Justice'

By Gerald M. Boyd
New York Times Service

WASHINGTON — President Ronald Reagan, in a ceremony charged with emotion, has pledged to bring to justice the gunmen who killed four U.S. marines Wednesday in San Salvador.

"They say the men who murdered these sons of America escaped, disappeared into the city streets, but I pledge to you today they will not evade justice on Earth any more than they can escape the judgment of God," Mr. Reagan said. "We and the Salvadoran leaders will move any mountain and ford any river to find the jackals and bring them and their colleagues in terror to justice."

He was speaking at a short ceremony as the bodies of the marines arrived Saturday at Andrews Air Base outside Washington. The base was crowded with a mixture of families, administration officials and a U.S. Marine honor guard and band.

Among those present were Vice President George Bush, Secretary of State George P. Shultz, Defense Secretary Caspar W. Weinberger and the national security adviser, Robert C. McFarlane.

The coffins of the marines, covered with U.S. flags, were carried one at a time by three marines on each side. The coffins went through a corridor of marines and were placed on separate platforms covered with black cloth.

The marines, who were off duty at the time, were killed by men carrying automatic rifles in an outdoor café in an affluent section of San Salvador. Seven Latin Americans and two U.S. businessmen were also killed.

Mr. Reagan, who read from a prepared statement, appeared to fight back tears as he said:

"Now today we grieve for four young men taken from us too soon. And we receive them in death as they were in the last night of their lives — together, and following a radiant light — following it toward heaven, toward home."

After his remarks, Mr. Reagan pinned Purple Heart medals on each coffin and greeted family members. Mrs. Reagan, who also greeted the relatives, embraced several of them.

Mr. Reagan did not specify what retaliatory measures he might take. He talked with President José Napoleón Duarte of El Salvador on Friday and pledged to work "in pursuit of the common goals we share," a White House spokesman said later.

The spokesman said Mr. Reagan had urged Mr. Duarte to start a special Salvadoran investigative unit trained by the United States to examine such incidents. Mr. Duarte should "do everything he could to get the unit into action," Mr. Reagan was quoted as saying.

Mr. Reagan announced Thursday that he was approving an emergency shipment of military supplies to El Salvador and would begin an administration review of ways to combat terrorism.

■ Assailants' Unit Named

Robert J. McCartney of The Washington Post reported from San Salvador:

The commandos who carried out the attack on the marines belonged to a unit of 75 guerrillas who specialize in urban paramilitary attacks and sabotage, according to a Salvadoran armed forces document.

The unit was formed last year and was named after a dead guerrilla leader, Mardoqueo Cruz, the document said. The unit claimed responsibility for the attack in a communiqué released Friday. The statement and was endorsed and broadcast Saturday by Radio Venceremos, the radio of El Salvador's main guerrilla organization, the Farabundo Martí National Liberation Front.

The unit is the urban organization of the Central American Revolutionary Workers' Party, which is one of the smaller guerrilla forces in the front.

"Did Ronald Reagan think that he would come to make war in El Salvador and that his soldiers were not going to die?" said the radio, which is based in a guerrilla stronghold in the mountainous northeastern province of Morazán. "Urban guerrillas of the FMLN, we salute you from this anti-imperialist trench," it said, using the front's Spanish-language initials.

AP

Mr. Reagan at the ceremony.

Amid Africa Failures, U.S. Shifts Policy on Its Aid

By Norman Kempster
Los Angeles Times Service

WASHINGTON — When Julie Da Vanzo, a senior economist at Rand Corp., visited a government-run hospital in Gambia that is dependent on foreign aid from China and Britain, she found a babble of voices and a jumble of priorities.

Most of the doctors were supplied by a Chinese government aid program; they spoke only Chinese. Most nurses were locally trained and spoke English. Most patients spoke only their own West African tribal languages.

A kitchen and a laundry, both built by the British, were spotless and antiseptic — and apparently seldom used. Adjoining them was an intensive-care ward so filthy, Ms. Da Vanzo said, that "you wanted to move the really sick patients to the laundry or the kitchen."

The Gambian hospital is just one of a bewildering variety of programs that the world's more affluent nations have used in developing countries, mostly in Africa, in an effort to lift the poorest of the world's poor out of their poverty. It is also a microcosm of foreign aid projects where good intentions have gone awry.

The more affluent countries have spent billions of dollars in pursuit of noble goals over the past decade, chiefly in Africa. But Africa appears in worse shape than before. When the rains failed, people starved to death by the hundreds of thousands throughout sub-Saharan Africa, with Ethiopia and Sudan hit the hardest.

"It is clearly true that conditions in Africa are not better than they were 20 years ago," said Richard Derham, assistant administrator of the U.S. Agency for International Development, or AID. "It's not just the weather. There was a steady decline in per capita food production even before the recent drought."

Some specialists, such as Elliot Berg, an economist who heads a consulting firm specializing in international development, are not sure that any approach to foreign aid will surmount the formidable problems of the world's poorest countries.

"My own view," Mr. Berg said, "is that the game is too tough for us."

After years of frustration, however, the United States is changing its approach, and there are some new signs of success.

The AID administrator, M. Peter McPherson, said Reagan administration officials have determined that foreign aid should not attempt to be "international welfare."

The emphasis on eradicating poverty, he argued, led to a proliferation of programs. The benefits of these were outweighed by the way they forced recipient countries to waste the time of their few trained officials, who ended up attending meetings and shuffling paper.

Now, the United States concentrates on training local specialists and running programs to adapt modern technology to the needs of the recipient countries. It also places new emphasis on building up the private sector of a given country's economy, and directs its aid to countries that are prepared to substitute private enterprise for government programs.

U.S. officials and some experts outside the government said that foreign aid may be starting to work in Africa. And they pointed to remarkable successes in Asia as proof that foreign aid can be effective if, as was the case in Asia in the 1950s and 1960s, it is tailored to local economic conditions and if the donors wait patiently for results.

In those years, the United States emphasized agricultural research, training local leaders and building roads, dams and other key economic and structural elements.

"We can now see in Asia that all of that foreign aid in the '50s and early '60s was a success, even if it was not perceived as such at the time," said John W. Mellor, an agriculture research economist and director of the International Food Policy Research Institute. South Korea is prospering, Bangladesh has shown some economic improvement in the past decade, and India has become a net exporter of grain.

But because the results of the U.S. aid were neither dramatic nor immediate, disillusionment began to set in.

So, in 1973, Congress ordered a complete change of direction. The United States began emphasizing programs for the poorest of the poor, mostly in remote rural areas, mostly in Africa.

The World Bank and some donor nations followed the U.S. lead, producing almost a decade of programs designed to improve life in individual villages. According to AID, 362 international missions visited a single African country in one year to plan assistance projects, leaving the country's limited number of managers little time to do much more than meet with all the foreigners.

The result, it has been generally agreed, was a disaster.

"We took an absolutely wrong turn in foreign aid in the '70s," said Mr. Mellor of the International Food Policy Research Institute. "I think that Africa has suffered significantly from foreign aid over the last decade."

In the view of some critics, some foreign assistance programs delivered resources to the least productive elements of society. Irrigating the land of poor farmers in villages with marginal rainfall, they said, amounted to little more than turning a garden hose on the desert.

At the same time, said Raymond Love, deputy assistant administrator of AID's Africa bureau, the continent was receiving complex rural development projects when it needed roads and other basic facilities.

But now, the economic turnaround so evident in Asia today may be beginning to happen in Africa. Officials said that aid-supported research has produced high-yield, drought-resistant sorghum that could reduce Africa's grain shortage in much the same way that the "green revolution," the effort to develop sturdy, high-yield varieties of rice and wheat, increased rice yields in Asia.

The ranks of international donor countries are growing, and Kuwait, Saudi Arabia, Norway, the Netherlands, France, West Germany, Canada, Britain and Japan now give a larger share of their gross national products in aid than does the United States.

But the United States, which pioneered modern foreign aid with the Marshall Plan that helped rebuild Western Europe after World War II, remains the largest single source of such aid.

The United States continues to set the terms of international aid and, with President Ronald Reagan's emphasis on aiding the private sector of developing nations, those terms have changed.

The Associated Press

The pope gesturing during an audience with Stefan Olszowski, the Polish foreign minister.

Pope, Polish Minister Hold Talks; Meeting Is Described as 'Rather Cool'

By E.J. Dionne Jr.
New York Times Service

ROME — Pope John Paul II has met with the Polish foreign minister in an atmosphere that one Vatican official described as "rather cool."

Officials said Saturday that the Polish-born pope had expressed his concern over charges brought against Solidarity activists by the Polish government and that John Paul effectively closed off the immediate possibility of improved relations between Poland's Communist government and the Holy See.

The Vatican also announced that its secretary of state would go to Czechoslovakia and Yugoslavia next month on behalf of the pope.

The Polish foreign minister, Stefan Olszowski, described the talks as "frank and constructive." He said at a news conference that he did not believe the discussions had suffered from the trial of three dissidents in Gdansk.

The dissidents were charged with calling for a strike and were given sentences ranging from two to three and a half years earlier this month.

John Paul had expressed his anger over the trial, saying that "what is regarded in Italy and some countries as a right is in other places considered and punished as a crime."

Mr. Olszowski had been scheduled to meet earlier with the Italian prime minister, Bettino Craxi. But Mr. Craxi canceled the meeting to protest the jailing of the Solidarity activists.

The visit to Czechoslovakia by Cardinal Agostino Casaroli, the Vatican secretary of state, is significant because church-state relations there are among the worst in Eastern Europe.

Cardinal Frantisek Tomasek of Prague, 85, said earlier this year that the situation of the Roman Catholic Church was growing steadily worse and that Catholics were being "hindered, pursued and controlled."

The pope had accepted Cardinal Tomasek's invitation to attend celebrations in Czechoslovakia for the 1,100th anniversary of the death of Saint Methodius. But the Czechoslovak authorities vetoed the pope's visit.

Saint Methodius and his brother Saint Cyril brought Christianity to the Slavic countries and are especially revered by John Paul.

The announcement of Cardinal Casaroli's trip and the pope's meeting with the Polish foreign minister were part of a period of intense maneuvering in the Holy See's relations with the Soviet bloc.

John Paul is planning to issue an encyclical next month expounding his views on Eastern Europe and on what he has referred to as the "artificial" division of Europe.

In describing the meeting Saturday with Mr. Olszowski, Vatican officials said the foreign minister had said that the Polish government had allowed the construction of 1,000 churches and other religious buildings in the past six years. But the pope sought to emphasize, in the words of one official, "that the problem is not relations between church and state, but between the state and Polish civil society."

Poland has also been seeking to establish diplomatic ties with the Vatican, but the Vatican has rebuffed the effort, saying the time is not yet ripe.

UNESCO Board Votes For Limited Reforms

By Paul Lewis
New York Times Service

PARIS — UNESCO's executive board has adopted a modest set of changes for the organization, promising a limited reduction in politically controversial activities that led the United States to withdraw at the end of last year.

The proposals for changing the United Nations Educational, Scientific and Cultural Organization were unanimously approved Friday after seven weeks of difficult negotiations. But many Western governments immediately cautioned that the agreement represented only a first step toward the kind of changes they want to see.

Those governments said they hoped that the proposals would be strengthened in October when they are to be presented to UNESCO's full membership at the meeting of its general conference in Sofia.

Although the accord was greeted with relief Friday night by delegates, the closing stages of the meeting were marred by several incidents reminiscent of the practices that led the United States to leave.

Against Western opposition, members from developing countries and the Soviet bloc forced through two resolutions critical of Israel, one attacking Israeli archaeological excavations in Jerusalem and the other charging suppression of the cultural and educational rights of Arabs living on the occupied West Bank.

UNESCO's director-general, Amadou Mahtar M'Bow of Senegal, also clashed with Western members of the board, announcing that he intended to use $10 million set aside as protection against inflation to help make up the loss of the United States' 25-percent share of the budget this year.

Earlier, all Western members except France warned that this appeared illegal under UNESCO rules, but agreed that the general conference should make a final ruling in October.

During the meeting, Denmark became the most recent Western government to submit a strongly worded letter to Mr. M'Bow expressing dissatisfaction with the way the organization is run.

Britain, which has threatened to withdraw from the body at the end of this year unless there were far-reaching changes, made it clear at the end of the session that it wanted additional changes approved at the meeting in Sofia.

The British delegate, William Dodd, emphasized the need for greater "program concentration." The code phrase refers to Western members' belief that UNESCO, in cutting costs to make up the loss of the U.S. share of its budget, should eliminate politically controversial programs.

Those programs include plans which critics have described as attempts to restrict press freedom and to promote governmental rights over the rights of individuals, as well as the agency's stance on disarmament questions.

Karl Moersch, the West German delegate to UNESCO, said that his government also would like to see greater "program concentration" approved in Sofia.

Mafia Suspects Arrested In Rome, Sicily Sweeps

New York Times Service

ROME — Italian police arrested 106 Mafia suspects in an operation that began Friday and continued Saturday in and around Messina, Sicily.

The Sicilian operation, which involved hundreds of police officers who set up roadblocks and conducted house searches, followed roundups in Rome on Friday in which 107 persons were arrested.

In all, 290 arrest warrants were issued in the Messina roundup against four organized crime families. The arrests were spurred by five Messina state prosecutors whose investigations began in December.

Of the 290 warrants, 144 were against persons already in prison. Charges in the cases involved murder, kidnapping, robbery, drug trafficking and attempted extortion and corruption.

A statement issued by the state prosecutor's office in Messina said the suspects rounded up in the operation on Saturday had "an organizational, structural and operating character of clear Mafia stamp."

"Their activities," the statement said, "were aimed at accumulating capital by means of serious crimes including extortion, robbery, gambling rackets, trafficking and peddling drugs and homicide, with a preference for using firearms and explosive materials."

Those arrested in Rome included at least two policemen, a neo-Fascist former regional councilor and a relative of Frank Coppola, the American organized crime figure, police said.

Pakistan Says Afghans Kill 3 in Border Shelling

The Associated Press

ISLAMABAD, Pakistan — Afghan government forces fired 20 artillery shells on the border town of Chaman in Pakistan's Baluchistan province, killing three civilians and destroying buildings, Pakistan's Foreign Ministry said Sunday. Newspapers in Pakistan said the shelling by tanks lasted 30 minutes.

The ministry said Afghanistan's chargé d'affaires was summoned after the attack late Saturday and told that "if such attacks did not cease the entire responsibility for the serious consequences would rest on the Kabul authorities."

Bomb Blast Damages Bayer Office In Brussels

The Associated Press

BRUSSELS — A bomb damaged the Belgian headquarters of Bayer AG, the West German chemical company. It caused no casualties.

A previously unknown group calling itself the Peace Conquerors claimed responsibility for the explosion on Saturday.

The explosion left an 80-centimeter (31-inch) hole in the brick wall separating Bayer's building from a neighboring one, shattered street-level windows and damaged part of the entrance hall.

Telephone calls to news organizations in Brussels claimed responsibility for the bombing on behalf of the Peace Conquerors and indicated that the action was aimed at protesting purported dumping by Bayer of chemical waste in the North Sea.

In Paris, Agence France-Presse received a letter purporting to come from the Peace Conquerors, which claimed responsibility for the bombing last Wednesday at Frankfurt airport. Three persons were killed and 42 injured in that explosion.

The letter said the bombing was a warning. It also said that the group plans to destroy a major airport building and a jumbo jet.

"We have decided to choose violence because it is our ultimate and only solution," the letter stated. "It does not bother us if women and children are killed. There are no innocents."

Reuters-United Press International

A policeman in San Francisco arrests a demonstrator protesting the University of California's decision to review case by case its holdings in companies with South African operations, and not sell the stock outright.

U.S. University Compromises Over South African Holdings

Los Angeles Times Service

SAN FRANCISCO — Rejecting pleas to sell the University of California's holdings in companies linked to South Africa, a divided university board of regents has voted instead to set up a committee to conduct a case by case review of its stock portfolio.

Under the compromise measure, drafted by the university's president, David Gardner, the advisory panel will judge "the quality of corporate citizenship" of U.S. companies that do business in South Africa, using as a standard policies that encourage "vigorous promotion of racial equality."

The panel's findings, announced Friday, would be forwarded to Mr. Gardner for possible use in decisions on future university investments. Mr. Gardner said, however, that only three U.S. companies whose stock is among the university's holdings would possibly fail the "corporate citizenship" test.

Israel Delays Mengele Decision

Case to Remain Open Pending Examination of Evidence

Reuters

JERUSALEM — Israel has thanked the Brazilian authorities for the examination of a body said to be that of Josef Mengele, but it said Sunday it wanted to examine the findings before concluding he was dead.

A Justice Ministry spokesman said Israel was awaiting material from forensic experts who examined the remains in São Paulo and other evidence before closing the case.

Scientists from Brazil, the United States and West Germany said Friday that they were convinced that the corpse of a man who died in a swimming accident near São Paulo in 1979 was that of the Nazi war criminal.

Menachem Russak, the top Nazi hunter for the Israeli police, said earlier in Brazil that he agreed with the findings.

Dr. Mengele was sought because of his responsibility for the deaths of 400,000 people, mainly Jews, at Auschwitz during World War II.

Israeli state radio said Saturday that Israeli experts had reports of him being seen alive since 1979.

In Frankfurt, the West German public prosecutor's office said it would not make a final ruling until it had examined reports from the experts who went to Brazil and compared them with evidence gathered in West Germany and Austria.

[A former Israeli intelligence chief said Saturday that he was not convinced that Dr. Mengele was dead, The Associated Press reported. "We must wait to see the official findings and not be satisfied with the initial reports," said Isser Harel, former head of the Mossad, Israel's intelligence service.

[Dr. Harel was responsible for the capture of another Nazi war criminal, Adolf Eichmann, in Argentina in 1960. Mr. Eichmann was kidnapped and taken to Israel, where he was charged with being responsible for the murders of millions of Jews during World War II. He was convicted and executed.

[Mr. Harel said that if Dr. Mengele died in 1979, he believed Dr. Mengele's family would have tried to prove it then "when the forensic evidence would have been easier to establish in a postmortem."]

The Associated Press

Romeu Tuma, the Brazilian police official in charge of the Josef Mengele investigation, surrounded by scientists and police agents, showing how photos of the Nazi war criminal were matched with a skull unearthed near São Paulo.

Experts Criticize Security at Airports in Athens, Beirut, Many Third World Nations

(Continued from Page 1)

would not disclose any security information about Heathrow, travelers say X-ray machines are used for screening and physical searches are sometimes conducted. Airport personnel are described as attentive, and access is closely controlled throughout. Domestic and international operations are kept separate, and all arrivals are separated from departures. Police officers are regularly on duty.

PARIS — The essential element at Paris airports is that police officers are involved in almost all security operations. At terminals 1 and 2 at Charles de Gaulle, passengers clear passport control, then go through X-ray machines operated by police officers, sometimes assisted by hired security guards. The procedure is the same at Orly Airport's international area, but a recent passenger reported that there were no X-ray machines and that hand baggage was individually scrutinized.

MADRID — Security at Barajas International Airport is rigorous, in part because the Spaniards are concerned about possible attacks by Basque terrorists. All carry-on luggage goes through X-ray machines and passengers pass through metal detectors. The Guardia Civil, a highly disciplined force, frequently checks passengers with hand-held detectors. Access to the passenger departure lounge is controlled by barricades and other devices. Direct access to the runway area appears difficult without a boarding pass. Domestic and international operations are in separate terminals, and arrivals and departures are also well separated.

WEST GERMANY — Security is taken seriously at the major airports in Frankfurt, Duesseldorf, Hamburg, Stuttgart, and West Berlin, and it is considered extremely difficult to get a weapon, or anything that looks like one, onto a flight originating in West Germany. Travelers say they are routinely asked to open briefcases even after they have been X-rayed. Body searches are common even after passengers walk through metal detectors. In periods of particular tension, passengers must identify their suitcases on the runway before boarding planes.

STOCKHOLM — At Arlanda Airport, which has separate domestic and international terminals, all hand baggage is X-rayed on international flights and security guards are in evidence. Access to the airfield is carefully controlled, and the staff seems trained and professional.

ATHENS — At the international terminal at the Athens airport, hand baggage is X-rayed and passengers pass through a metal detector. According to the airport commander, police officers are posted at each station. On a recent visit, all posts were manned and workers seemed alert, but at other times attention has been perfunctory. Physical searches seem rare.

N.Y. Orchestra Cancels Greek Tour

New York Times Service

MADRID — The New York Philharmonic, on a European tour, canceled performances in Greece, scheduled to begin Sunday, because of a State Department warning against flying into Athens.

The State Department issued the warning four days after two Shiite Moslems boarded a Trans World Airlines plane in Athens and hijacked it.

Zubin Mehta, the Philharmonic's music director, and Albert K. Webster, the general manager, said that the decision to cancel the trip was made Saturday morning after many of the 175 players and staff members on the tour said they feared for their safety.

In Athens, the Greek minister of culture, Melina Mercouri, assailed the cancellation as "an unfriendly act" and "an affront" to Europe.

Referring to President Ronald Reagan's warning to Americans to avoid Athens Airport as a place of terrorist danger and a State Department travel advisory to that effect, Miss Mercouri spoke Saturday night of "a campaign of intimidation directed against the American people."

Some airlines re-check passengers at the airport as they prepare to board their plane. There appears to be no easy way of getting out onto the runway area without passing by police and airline personnel. The perimeter of the airfield is considered the weakest link in the airport's security. Recent improvements have been made in the fencing, and tighter security measures are planned. In view of the airport's proximity to the Middle East, many believe that security measures in Athens should be much tighter.

ROME — At the international airport, hand-baggage is X-rayed and passengers pass through metal detectors, but some travelers have found that the equipment is not highly sensitive to the presence of metal objects. Some airlines carry out their own security checks, particularly regarding carry-on baggage. Guards can be seen patrolling the catwalk that overlooks the main passenger area. The airport is well designed, preventing people from wandering about unnecessarily, but airport workers sometimes seem listless.

ZURICH — Mr. Wallis of the international airlines group characterized the security at Kloten Airport in Zurich as "first rate." Passengers are checked with a hand-held metal detector, and frisking is routine. Hand-held baggage is X-rayed, and bags are generally inspected by hand. Armed guards are in evidence, and armored cars are sometimes stationed on the field. Passenger movements are well controlled, and airport personnel, though polite, are attentive, businesslike and highly professional.

WARSAW — All passengers must pass through X-ray machines, and security personnel are well trained. Customs officers inspect much of the baggage that is checked on flights. Well-armed troopers are sometimes in evidence in the airport and on the runway area watching aircraft. Domestic and international passengers use different terminals.

SOVIET UNION — The strict controls on passenger movements at Soviet airports would seem to discourage air piracy. But there have been at least 14 hijacking attempts, usually by people trying to leave the country. At international airports, procedures are tight, though probably for reasons of national security. All luggage is X-rayed, all passengers go through a metal detector, and some are searched. Police officers, soldiers, and plainclothes officers are very much in evidence.

Middle East

TEL AVIV — Ben Gurion International Airport is regarded as one of the world's most security conscious, with unusually thorough and time-consuming procedures. Arriving passengers are interviewed by officers who examine their luggage, sometimes item by item. After going through passport control, passengers and their luggage are X-rayed. Physical searches take place when there is cause to suspect a traveler.

Security personnel are trained to recognize what are known as hijacker profiles. Access to the departure lounge and the runway area is strictly controlled. Domestic and international flights are separated, as are international departures and arrivals. Police and security guards are conspicuous. El Al, the Israeli national airline, provides its own supplementary security checks in airports abroad.

AMMAN — Queen Alia International Airport, which opened in 1982, was designed with air piracy in mind. Only ticketed passengers may enter the upper deck, where departure lounges lead directly to docking gates. Terminals have at least two screening points, and armed police officers are conspicuous. Passport control is computerized, and airport personnel are familiar with terrorist profiles.

CAIRO — Security is extremely tight at the two main terminals of Cairo International Airport. All movement between departure areas and planes is by bus, and no passengers may walk on the runway area. Police officers screen passports and tickets. Before entering the departure area, passengers are screened again by electronic gates, and hand luggage is X-rayed. A third screening, which involves a physical search and the opening of carry-on luggage, occurs in the departure lounge, where police officers abound. Armed officers guard each aircraft day and night. Mr. Wallis praised "the high level of awareness about security."

Africa

NAIROBI — At Jomo Kenyatta Airport, luggage is X-rayed, and attendants often inspect carry-on luggage by hand. A hand-held metal detector is also used on passengers. Access to the departure lounge and the runway area is closely controlled. Police officers are noticeable, and personnel tend to be strict.

Asia

INDIA — All major Indian airports use X-ray machines, and passengers are searched upon entering the departure lounge. Access to departure lounges is closely controlled, and metal detectors are used when passengers leave the transit area to board planes. Carry-on luggage is searched, and entrances to check-in areas are guarded by armed police. The New Delhi airport has separate buildings for international arrivals, international departures, and domestic flights.

BEIJING — There is a single "choke point" between the check-in area and the aircraft through which all departing passengers go. All hand luggage is X-rayed and much of it is opened. After passing through a metal gate, passengers are often searched with a metal detector. Every flight carries security agents.

TOKYO — Security at the new international airport at Narita is among the tightest in the world. About 1,500 police officers and 400 civilian guards patrol the grounds. The airport is surrounded by barbed wires, steel barricades, and electrified fences, aimed not specifically at would-be hijackers but at local people who have protested the construction of the airport. Since it opened in 1978, there have been no hijacking attempts.

At the entrance to the ticket counters, officers run hand-held metal detectors over baggage to be checked. This baggage is X-rayed again before being loaded onto the plane. After immigration checks, passengers must have their hand-held luggage X-rayed and must pass through metal detectors, and nearly everyone is physically searched.

SEOUL — Kimpo International Airport is unusual in that even passengers on arriving flights must walk through metal detectors and have their hand baggage X-rayed.

BANGKOK — In Donmuang Airport, the busiest in Southeast Asia, security is unobtrusive but appears very efficient, although actual searches are rare. In these respects, the airport is typical of others in the region. In the departure lounge, passengers go through X-ray and metal detector equipment when a flight is called, although passengers from several flights can mix in the areas beyond the detectors. Access on the runway area is strictly controlled. Airport personnel seem competent and alert.

KUALA LUMPUR — The airport in Malaysia's capital is alone in the region in X-raying all baggage of passengers entering the terminal building even before check-in. Hand baggage is X-rayed and subject to an additional search before the passenger boards the plane. Domestic and international flights are strictly separated.

SINGAPORE — Only Singapore Airlines requires all baggage to be inspected on entering the building. Although access between arrivals and departures is easier here than in some other airports, detection devices are situated at the gate of each flight's boarding lounge. The airport is spacious and never crowded, so personnel can easily observe the proceedings.

JAKARTA — In April, a new international airport opened at Cenkareng, outside the city. The layout, with a series of pavilions connected by open walkways, probably makes the airport vulnerable to unauthorized entry. Luggage is examined only once.

Latin America

RIO DE JANEIRO — At Galeão Airport security is lax, as it is in most of Latin America, although there have been almost no hijackings in the region in recent years. Individuals and hand luggage are screened by X-ray devices on international flights, but not for domestic flights. The police presence is minimal. In addition, although international and domestic departure lounges are different, it is easy to move from one to another. Mr. Taylor of the pilots' association said, "The level of security varies enormously."

LIMA — At Jorge Chavez Airport, X-ray machines are used for international flights but not for domestic flights, despite Peru's guerrilla war. There is more of a military presence here than in Rio de Janeiro. As is true elsewhere in the region, drug smugglers are the main target of security.

MEXICO CITY — At Benito Juarez airport, security is minimal, and officials allow almost anyone with a serious-looking credential to accompany departing passengers or await arrivals at the door of the plane.

MANAGUA — Security procedures at Augusto Cesar Sandino International Airport are much tighter than at other Central American airports. Plainclothes police officers patrol waiting areas. All baggage is searched. Armed soldiers patrol the runway area.

North America

NEW YORK — "We have no questions about its safety whatsoever," Mr. Wallis said of Kennedy International Airport. Along with the usual metal detectors and X-ray machines, there are alarm systems to detect intruders, and uniformed and plainclothes officers are in evidence. Special badges and license plates are among the devices used to keep the airfield secure.

MIAMI — At the international airport, passengers appear to be screened thoroughly by X-ray machines and metal detectors, but they move quickly through the checkpoint — at the rate of less than 20 seconds each. Security is provided by private companies employed by individual airlines and by Dade County, which has a 120-member police force covering the airport. Because of Miami's proximity to the Caribbean, the companies give their personnel specialized training, an airport official said. In the last 12 years only two hijackings have originated from Miami, he added.

OTTAWA — Security at Canadian airports is virtually identical to that of the United States. X-ray machines are used to screen all carry-on luggage, and passengers must walk through a metal-detecting device. Police are on duty.

Reuters

A banner in the departure lounge at the Athens airport protests Ronald Reagan's advice to Americans to avoid using the airport because of what he said was inadequate security.

600,000 U.S. Taxpayers Still Owed Refunds by IRS

Los Angeles Times Service

WASHINGTON — As many as 600,000 Americans have yet to receive overdue tax refunds because the Internal Revenue Service has been unable to find their files in its new computer system, according to the head of the IRS.

Taxpayers who have not received refunds should file duplicate returns while the agency continues to search its computers, IRS Commissioner Roscoe L. Egger Jr. said Friday at a hearing of the House Ways and Means oversight subcommittee.

He said all refunds would be paid eventually, perhaps by the end of July.

New computer equipment worth $103 million modernized IRS record keeping this year, but it also created problems. At one point last month, more than 1.1 million refunds reportedly were unpaid.

Mr. Egger said most of the computer problems plaguing the IRS this tax season have been cured. He denied charges by Representative J.J. Pickle, a Democrat from Texas and chairman of the subcommittee, that the tax returns were lost.

"They're in the file somewhere," Mr. Egger said.

DOONESBURY

INTERNATIONAL Herald Tribune
Published With The New York Times and The Washington Post

Who Combats Hijacking?

The people who run the world's airlines and airports know very well how to thwart hijackings. It has been done in America for 12 years, for the most part effectively and well within the tolerances of a free society. You X-ray all carry-on luggage. You walk all passengers through metal detectors. You credential and control all airline and airport employees.

Hijackings still occur; there were five of U.S. commercial flights last year. One originated in Haiti, another in the Virgin Islands. Those were the only two on which the hijackers turned out to have guns. The armed Haitian was an airport security guard; the hijacker from the Virgin Islands was a prisoner being brought to the United States. There were 1,632 firearms detected at screening points in just the last half of last year, and 720 persons were arrested for carrying firearms.

There is no known acceptable way to prevent hijackings entirely. It may well be harder to prevent them in some other places than in America. But is it that much harder? In some countries, at some airports, security is apparently weak because the authorities are indifferent. That seems to be the case at the airport in Athens, the last stop of the TWA flight before it was hijacked by two men on June 14.

Both men had guns. How the guns got on the plane is not known. The passengers had to go through two checkpoints before boarding the plane, one run by the airport and one by TWA. Experts say there is no way to move guns undetected through a checkpoint whose X-ray machine and metal detector are properly functioning and properly manned.

The Athens airport is notorious for lax security. In a formal representation to the Greek government in February, the United States listed 26 ways in which the airport fell short of international security standards. President Reagan was right to say in his news conference this week that the Greeks bear responsibility. The U.S. Transportation Department is now deciding whether to do more than warn U.S. travelers not to use the Athens airport. It has the power to keep U.S. carriers from stopping there. The department is also reviewing its judgment as to other dangerous airports.

Meanwhile, in Congress there has been another rush to put armed marshals on airliners, as was done briefly in the early 1970s. A lot of experts wince at this. They do not oppose selective use of marshals on flights thought to be especially vulnerable, but they are leery of the idea of gunplay at 40,000 feet. They imagine unarmed hijackers' somehow threatening other passengers to make armed marshals turn over their guns. Their basic view is that the fewer guns in the air, the better.

A limited number of marshals may help, but the main answer lies with the governments that run airports. The first responsibility is theirs.

— THE WASHINGTON POST.

Yes, a Procedural Error

The "star wars" defense program has got off to a rocky start. Its first test on board the space shuttle sent the craft right through a mountain 10,023 nautical miles (18,600 kilometers) high. That is a bad augury for a defense that must work perfectly the first time it is used.

Luckily there are not too many 18,600-kilometer-high mountains on Earth, and the shuttle is still in free orbit. Mount Abrahamson, it might be called, after the "star wars" director, Lieutenant General James Abrahamson. It is an imaginary construct, created by a computer's misinterpretation of a human order.

The "star wars" command had planned to shine a laser beam from the Hawaiian island of Maui, bouncing it off a mirror in a shuttle window. The goal, doubtless intended to influence congressional handling of the "star wars" budget, was to test a means of correcting the atmosphere's distortion of laser beams. That would let a ground laser zap a missile in space — if the Russians refrained from attacking on a cloudy day. But the shuttle passed Maui with its mirror pointing up instead of down.

The intrepid star warriors forgot that they had programmed the shuttle's computer to accept all units of distance as nautical miles. The shuttle had to point to a laser station that stands on a volcano 10,023 feet (3,055 meters) above sea level. No one thought to convert that figure into nautical miles, so the shuttle's computer assumed that it had to point to a mountain 10,023 nautical miles high — far higher than the shuttle's orbit — and turned the craft mirror-upward. None of the crew realized in time that they had flipped wrong-side-up. "If your car doesn't start in the morning," huffed General Abrahamson, "does that mean 'star wars' isn't going to work? There's no logic to it. We had a small procedural error."

But there is a deep logic. The error that created Mount Abrahamson is exactly the sort that riddles complex computer codes and can take many trials to eliminate.

A "star wars" strategic defense system would depend on computer codes more complex than any yet written. But the system could never be fully tested, since it is impossible to mimic a full-scale Soviet strike. That is why the "star wars" concept is as solidly rooted in reality as the imaginary mountain.

— THE NEW YORK TIMES.

War on Narcotics Traffic

A fundamental and distinctive rule in American society is that the military should not be used to enforce the law. That limiting tradition is as important to the military as to citizens concerned with civil liberties. The few familiar exceptions come in times of great duress: to patrol after natural disasters, to put down riots, the occasional use of troops in the 1950s and 1960s to enforce civil rights. Now there is talk of a new exception: expanded use of the military to block drug traffic into the United States, particularly from Latin America.

Admiral James D. Watkins, chief of naval operations, reports that the Joint Chiefs of Staff have unanimously recommended it. If the producing countries were willing, the services would help them train teams and lend or sell them equipment to suppress production. U.S. planes and ships would also step up surveillance — the services already do some, as adjuncts to the Coast Guard — to block the shipment of drugs. "It could be a rallying point for this hemisphere," the admiral said.

It is a tempting idea. Drugs are a curse, and law enforcement agencies lack the resources to do much more than nick the trade. It would help enormously to have the military — and foreign governments — actively on their side. The dollar cost to the military would be relatively low. The surveillance would be good exercise; presumably it would not be allowed to detract from other military missions.

The problem would be to keep it that simple. Drug interdiction should not be intertwined with other issues. Admiral Watkins suggested that the drug trade was helping to finance leftist insurgencies in the Western Hemisphere, making the trade "a national security problem" and so a legitimate target for the military. There is no need for that kind of coloring; the drug trade is bad enough on its own. Whatever the military is asked to do about drugs ought to be kept separate from what it is asked to do in other areas.

A second complication involves what the military would do. The chiefs would have the military act only as a kind of spotter for law enforcement agencies. Others think the navy should actually stop, search and seize; a pending amendment to the defense bill in the House would empower it to do so.

That, too, is tempting, but the proposal has not been thought through. Against whom would the military use force, under what rules, in what places, on what legal grounds? Good answers are needed before Congress votes. The reason the amendment is attractive is that the military is so powerful. That is precisely the reason why the military is so sparingly used.

— THE WASHINGTON POST.

Other Opinion

Turning a Blind Eye to Uganda

Britain is now the only member of the Commonwealth still willing to keep a military training mission in [Uganda]. Of course, the North Koreans are also instructing the Ugandan army; but their reputation for brutality gives little hope for improved treatment of innocent civilians. As the former colonial power we have a particular duty. [Foreign Secretary] Sir Geoffrey Howe should tell [President Milton] Obote that it is impossible any longer to turn a blind eye to so much evidence of torture, rape and murder. This message must not be diluted for mere commercial considerations. Unless Kampala offers an acceptable response, including a readiness to punish the known perpetrators of these atrocities, Britain should pull out its military mission and cancel all aid.

— The Observer (London).

FROM OUR JUNE 24 PAGES, 75 AND 50 YEARS AGO

1910: How New York Got Cocktails

NEW YORK — Broadway and the Bowery have welcomed Harry Johnson, who won fame many years ago by introducing New York to the cocktail and the mint julep. He is here from Berlin to visit relatives and friends. "Brandy, gin and Jamaica rum were the popular drinks of the day when I opened the 'Little Jumbo' in Grand Street, back in the latter seventies," Johnson said. "It was here that I first made the gin sour, the mint julep and the cocktails. Mixed drinks were unknown in New York then. It was in the little saloon there that 'Boss' Tweed drank his first mint julep and Horace Greeley sipped his first cocktail." Mr. Johnson is now nearly seventy years old.

1935: The Loch Ness Monster at Tea

LONDON — In far off Inverness-shire the Loch Ness monster became active again [on June 23] to show his appreciation of the summer weather. He was seen at Halfway House, near Invermoriston, by sixteen persons, mostly tourists having tea at the time. George Sutherland of Edinburgh, one of the witnesses, said that the proprietress of Halfway House called out: "There's the monster!" Everyone rushed out and saw part of the creature's back as it emerged from the bay and made its way across the lake. It moved about for twenty minutes before it disappeared. "I can't say what it was," Sutherland said, "but it was a living creature. It was no hallucination."

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Shia Fundamentalism: A New Force to Reckon With

By Robin Wright

This is the first of two articles.

ANN ARBOR, Michigan — Soon after American hostages were taken at the U.S. Embassy in Tehran in 1979, President Carter summoned R.K. Ramazani, a professor at the University of Virginia and America's leading expert on Iranian foreign policy, to a meeting in the Oval Office. Repeatedly Mr. Carter emphasized that the United States was not in conflict with Islam, only with the Iranians.

Mr. Carter was right in recognizing the problem, but events have shown that separating the two is not so easy. In Islam, politics and religion are inseparable. And in the late 20th century the Islamic fundamentalism preached from Iran has become a potent force for discontent and revolution throughout the Middle East.

That force is behind the hijacking of TWA 847, as well as the earlier bombings of the marines' compound and two U.S. Embassy premises in Beirut and the American mission in Kuwait. U.S. diplomats throughout the region now work behind tank traps and machine gun emplacements in diplomatic fortresses. U.S. citizens often live as recluses.

Five months after the 1983 bombing of the marines' compound, Marvin Zonis, director of the Middle East Institute at the University of Chicago, spoke on "The Psychological Roots of Shiite Terrorism" at a State Department seminar. "The message from Iran — no matter how bizarre or trivial it sounds on first, second, fourth or 39th hearing — is in my opinion the single most impressive political ideology which has been proposed in the 20th century since the Bolshevik revolution," he said. "This powerful message will be with us for a very long time, no matter what happens to Ayatollah Khomeini."

The killing last week of yet another American by Shiite fanatics was just one of many indications that resolution of the immediate hijacking ordeal will not mean the end of the U.S. conflict with Shiite militants in Lebanon or elsewhere.

In effect, the United States is engaged in a war, perhaps the most trying and unconventional conflict it has ever faced. The opposition is amorphous and diffuse, often without identifiable leaders, members or headquarters.

It is tempting to want to strike back, to confront attackers with conventional military force. But the nature of this war is such that it is not against a state or an area with borders, against which it would be easy to launch air strikes or land assaults. America's foe is a religious movement whose foot soldiers are not confined to a single country or sect.

Yet a state, Iran, is the locus of the acts that are so disturbing to the United States.

In 1983 Washington officially labeled Iran a primary sponsor of state-supported terrorism. It is more accurate to call it state-inspired, for the Islamic Republic's main role is as a model and catalyst. But, beyond the theological and intellectual ties, Shiite fanatics in Lebanon and elsewhere do have visible links with Iran.

Several leading Lebanese mullahs travel regularly to Tehran. The Iranian Revolutionary Guards stationed in Lebanon's eastern Bekaa valley since 1982 have provided material and political support for the burgeoning extremist factions. Dozens of young fighters from different groups have received military training at camps scattered throughout Iran. Among them is the current military chief of Lebanon's Amal movement, a youth who between 1979 and 1982 hijacked six planes traveling to or from Libya.

Yet neither the Iranian revolution nor the subsequent war would have happened if there had not been deep-seated antagonism toward the United States. Islamic fundamentalists feel they have not started the trouble but have responded to an opponent who, they feel, started it. Their extremism is not for love of violence. Their revolution is against what they feel is foreign domination and encroachment in every aspect of their lives — symbolized most often by the United States.

One point of consensus among the disparate Shiite groups, who are often in disagreement on other major issues and tactics, is that they see themselves as having lived under the heel of the United States for 40 years — since America became the main influence in the Middle East.

An oft cited American intervention is the CIA assistance to the shah in 1953 in the overthrow of a nationalist movement led by Prime Minister Mohammed Mossadegh, who had been successfully undermining the royal family's then fragile position. Nationalists and Shiite fundamentalists came to share a common resentment of what they saw as the shah's servile attitude toward the United States.

The United States is criticized by militants for trying in the 1960s to manipulate coups in Syria and for backing a corrupt king in Libya. In the 1980s, U.S. troops and warships went on the offensive for the first time since Vietnam — against Moslems. Firepower was used not because American lives were endangered but to protect a minority government in Lebanon, one of the Arab world's few democracies.

America was implicated after a bombing in March near the home of one of Lebanon's most militant Shiite clerics; more than 80 people died, but not the cleric. The bombers reportedly had ties to a group being trained by the CIA.

The long record of fears and suspicions about American intentions in the region was reflected in a manifesto of Lebanon's Hezballah, or Party of God, released a month later: "Iman Khomeini, the leader, has repeatedly stressed that America is the reason for all our catastrophes and the source of all malice. By fighting it we are only exercising our legitimate right to defend our Islam and the dignity of our nation. We have opted for religion, freedom and dignity over humiliation and constant submission to America and its allies."

A member of Hezballah said in an interview shortly after the bombing of the second U.S. Embassy annex in Beirut last September: "We aren't against the American people. We are against oppression and injustice. The fire of Islam will burn those who are responsible for these practices. We have been dominated by the U.S. government and others for too long."

U.S. foreign policy in the Middle East emphasizing the security of Israel is also a major cause of the militants' wrath. But the militants' reaction to the United States is probably linked more to American policy on other Islamic issues over the past 40 years than to U.S. positions on the Arab-Israeli dispute over Palestine.

Indeed, for more than a month before the TWA hijacking, Shiite militiamen were engaged in bloody clashes with Palestinians. The Shiites' desire for the return of historic Jerusalem is primarily because it contains the third holiest site in Islam, and less because the Palestinians want a homeland. Settlement of the Palestinian question would probably not end the fundamentalists' anti-American crusade.

Nor would dispatching troops or conquering territory end the conflict. The extremists are now simply too spread out and too numerous for this war to be ended by conventional means.

But the hijacking of TWA 847 could serve as a turning point for U.S. policy to end a conflict that is taking a mounting toll in American lives. The Reagan administration must use extreme caution in analyzing which of three main policy options it adopts: force, sanctions or rapprochement. Otherwise the United States may face an escalation that will make the recent wave of bombings, kidnappings and hijackings seem small-scale by comparison.

Since the attacks began, U.S. policy-makers seem to have seen only the violence in the extreme fundamentalist movements, and not the political and social roots. And the Reagan administration, perhaps backed by an angry public, now seems intent on sending a message to the militants and their sponsors by using force — probably a quick, supposedly surgical strike after the hijacking is resolved.

What has made Iran such a frustrating conundrum to American policy-makers is the perception that it acts on the basis of passion rather than thoughtful policy. Ironically, the Reagan administration may be in grave danger of succumbing to the same emotionalism that it sees in the fundamentalists.

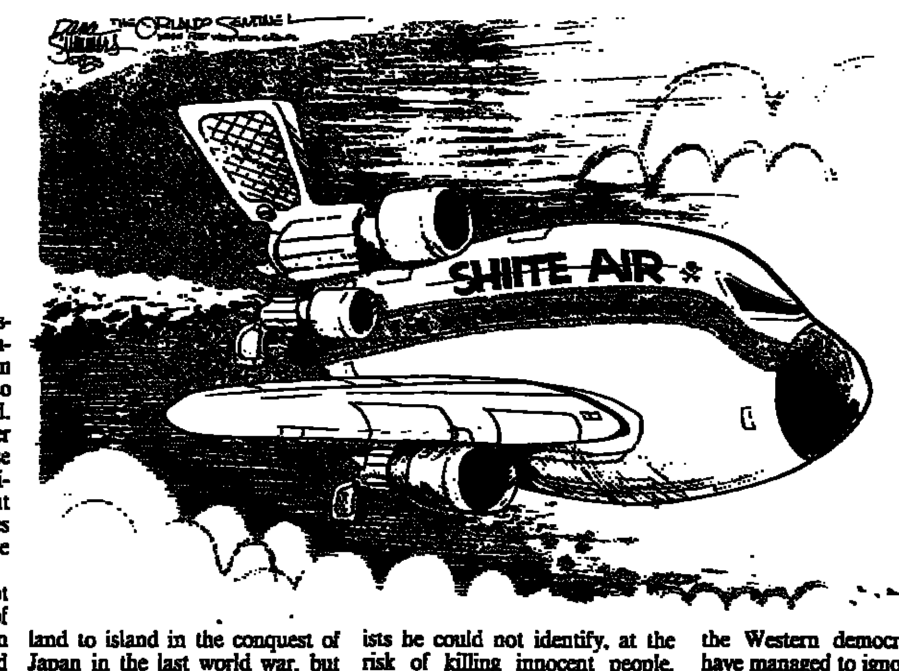
Use of force, the first policy option, is likely to be catastrophic in the long run for the United States for three reasons. Contrary to public hopes that it would cripple or discourage the movement, use of force against the Shiite crusaders would fuel their resentment and commitment, providing new reasons for seeking revenge against the "Great Satan," as well as creating an even more hostile anti-American atmosphere, thereby attracting new recruits.

The Shiite extremist has become a Hydra. Kill one, and two appear in his place.

The writer, a former Beirut correspondent for The Sunday Times in London, is the author of "Sacred Rage: The Crusade of Militant Islam." She contributed this comment to The Washington Post.

America Is Usually Surprised

By James Reston



WASHINGTON — A surprising thing about this revolutionary age is that the American people and their government are so often surprised by events abroad. The seizure of an American airliner and 40 U.S. citizens by Lebanese Shiites brings merely the latest evidence that Americans are often out of touch with the violent forces that threaten their security and the order of the world.

The record is clear. It was not conceivable even in the midst of the last world war that Japan would attack Pearl Harbor and sink most of the U.S. Pacific fleet at anchor. Even General George C. Marshall couldn't believe it.

America was surprised again when China swept across the Yalu to meet General Douglas MacArthur's troops when they crossed the 38th parallel in Korea and approached the Chinese border. (It is seldom remembered that in that crisis President Truman seriously considered using atomic weapons to avoid a military disaster.)

President Kennedy was not only surprised but humiliated by his bungled attempt to overthrow the Castro government at the Bay of Pigs. Presidents Johnson and Nixon were sure that although the Vietnamese Communists had expelled the French they could not possibly hold out against the modern weapons of the United States.

Nobody has ever questioned the valor or military genius of the American armies in their invasion of Europe or their strides from island to island in the conquest of Japan in the last world war, but since then the American record of dealing with nationalism, factionalism and religious fanaticism in the Third World has been not only painful but embarrassing.

Jimmy Carter, a deeply religious man, was stunned and finally defeated by Ayatollah Khomeini and his religious thugs, who defied U.S. power and held U.S. diplomats captive for more than 400 days.

President Reagan, who condemned Mr. Carter for his patience, has been astonished by the destruction of his embassy and the murder of hundreds of U.S. marines in Beirut, and now by the capture of Americans in a dispute between Israel and the Shiites, for which he is not responsible.

Mr. Reagan deserves credit for holding his fire so far in the face of this madness and mockery of the United States. In the most painful presidential news conference in recent memory, he had the courage to say that shooting back at terrorists he could not identify, at the risk of killing innocent people, would by itself be an act of terror.

Still, we have to wonder why, from administration to administration of whatever party, the United States is constantly taken by surprise in a world it is trying to help but does not quite understand.

Angered by a hijacking, Washington is trying to deal with a world it knows little about, thinking it is dealing with the liberation of a plane and its passengers when it is up against not merely terrorists but a struggle for power in the Arab world and a clash of philosophy about nothing less than the meaning of life, here and hereafter.

Stumbling into this, Americans even at the top of the government are startled. Americans are still innocents abroad, physically the most mobile people in the world but intellectually still longing for an isolationist world that is gone.

Islam commands the allegiance of 67 countries and one-fifth of the world's population, but in general the Western democratic nations have managed to ignore it.

As for the Shiites — a minority of about 15 percent of the world's Moslems, most of them living until recently in misery and meditation, refugees in their own countries — few members of the U.S. Congress, the Reagan cabinet or the press in Washington had anything but the vaguest notion of them until Ayatollah Khomeini kicked America out of Iran and provoked the Shiites in Lebanon to violent resentment and terrorist action.

This opposition in the Middle East is part envy and part fear of the materialism and self-indulgence of the Western democracies, part anti-Semitism and hatred of Israel as an ally of America. Americans are not likely to understand all these tangles unless they recognize that they are not the fault of "Jimmy Reagan," as The Wall Street Journal mockingly calls him, but the result of centuries of human conflict and stupidity.

The New York Times.

The 'Contras' Are Losers In the New Nicaragua

By Edgar Chamorro

The writer left the rebel Nicaraguan Democratic Force last November.

KEY BISCAYNE, Florida — U.S. policy toward Nicaragua has again failed at a critical juncture. Congress has voted $27 million in "humanitarian aid" to the "contras." This will not end the crisis but only make matters worse.

Rather than engage itself further, economically or militarily, the best course for Washington is to stand back from the conflict, encourage political dialogue and support Latin American countries in their effort to prevent regional war.

My experience as a former rebel leader has convinced me that the Nicaraguan Democratic Force cannot contribute to the democratization of Nicaragua. The rebels are in the hands of former national guardsmen who control the "contra" army, stifle internal dissent and intimidate or murder those who dare oppose them. And the rebels have been subject to manipulation by the CIA, which reduced it to a front organization.

For example, in January 1984 after the CIA mined Nicaragua's harbors, I was awakened at 2 a.m. at my "safe house" in Tegucigalpa by an anxious CIA agent. He handed me a press release written in perfect Spanish by CIA officials. I was surprised to read its claim that the Democratic Force had laid the mines. I was told to read this announcement on our clandestine radio station before the Sandinists broke the news. Of course we had no role in mining the harbors.

Two months later, when a Soviet ship struck a mine, the same agent appeared. Out of fear of creating an international incident, he ordered us to deny that one of "our" mines had done the damage.

Yet President Reagan has persuaded Congress to aid the "contras." The message Congress sends is that a political solution is not possible and that the Sandinists will respond only to military pressure. The legislators who voted for the aid are mistaken. There is still time for a political resolution, but not much. These steps are needed:

- A political dialogue is the first priority. Past proposals for dialogue have been delivered as ultimatums and so were unacceptable. The first step toward national reconciliation and dialogue must be abolition of the "contra" army.

By urging the rebels to lay down their guns, the United States could support a policy of national reconciliation that would strengthen the moderates and pragmatists and weaken the extremists and ideologues on both sides. Moderate political leaders should not be encouraged to leave Nicaragua to join the "freedom-fighters." It is the moderates who are most capable of engaging in dialogue.

Military pressure inflicts suffering on the people, leads to further political polarization and increases the danger of military escalation. The present policy of applying pressure to the Sandinists until they "cry uncle" grossly underestimates Nicaraguan self-esteem. A revolution based on national pride and dignity will never "cry uncle."

- The Reagan administration should give more than lip service to the Contadora initiative, which still presents the best option for achieving a lasting political solution. Nicaragua is a Latin problem best solved by Latin leaders.

The funds voted by Congress are just another vehicle to prolong this war. The only assistance worthy of the name "humanitarian aid" is help for victims on both sides.

What we must do is recognize the good that has come from the revolution. It has brought a sense of dignity and independence to the people. The Sandinists' concern for the poor cannot be faulted. Likewise, there are some democratic leaders associated with the "contras." The challenge is to bring together the good on both sides, with minimal foreign interference.

Nicaraguans must find their own solution. We are the ones who ultimately must live together. But the Sandinists will not talk to the "contras" as long as they are perceived as Mr. Reagan's army.

The New York Times.

Israel Has Cause to Get Out of Lebanon

By Dan Fisher

JERUSALEM — The TWA hijacking and an earlier hostage incident this month involving United Nations troops in southern Lebanon have a common backdrop — a continued involvement north of the border by an Israeli army that was officially withdrawn from Lebanon.

Israel's determination to exercise military control over a piece of its northern neighbor's territory, a so-called security zone extending up to 10 miles (16 kilometers) beyond the border, has been controversial among Israelis from the start.

It means supporting a Christian-dominated Lebanese militia as a proxy in the region, supplying it with money, arms and advisers although it is despised by the Shia Moslem majority in the area. It means maintaining an unspecified number of security agents in the zone. And it means free movement of regular Israeli army patrols back and forth across the border as a reminder that, whatever the maps say, Israel regards the area as Israeli in the military security sense.

Critics have argued that the security zone threatens to become a trap, drawing Israel back into Lebanon's cycle of violence. The TWA hijacking and the UN hostage incidents underscore the threat and show that it affects Israel's standing with friends.

The key demand of the TWA hijackers has been for the release of 766 Shia Moslem prisoners in Israel, most of whom were captured early this year in connection with "Operation Iron Fist" raids against southern Lebanese villages. The raids were in retaliation for guerrilla attacks against withdrawing Israeli troops, and Israel has consistently linked the release of the prisoners to the security situation in the area.

The prisoners have not been convicted of any crime. According to the United States and the International Red Cross, among others, their transfer to Israel last April was in violation of articles 49 and 76 of the 1949 Geneva conventions that prohibit the forcible transfer of civilians to the territory of an occupying power. The Shiites are, in effect, Israeli hostages whose freedom is dependent on the good behavior of Israel's Lebanese neighbors in the security zone.

Earlier this month the South Lebanon Army militia backed by Israel took hostage 25 Finnish soldiers assigned to the UN Interim Force in Lebanon and threatened to execute them at the rate of one an hour until its demands were met. General Antoine Lahad, commander of the militia, said Finnish UNIFIL soldiers had collaborated in the abduction of 11 of his men, although a UN spokesman insisted that these men had defected to the rival Amal militia. General Lahad wanted the 11 returned.

Details of the incident are still unclear, but General Lahad, reportedly under Israeli pressure, released the last of his captives unharmed eight days after they were abducted.

Israeli officials admit privately that the affair could have been ended much more rapidly; but Israel did not want to be seen as undercutting General Lahad. So Israel put itself in the position of appearing to condone kidnapping by its proxy army.

The affair damaged Israeli-Finnish relations. And Norway's chief rabbi, Michael Melchior, told the Jerusalem Post that thousands of Norwegian soldiers serving with UNIFIL arrived in the region sympathetic to Israel but will leave "hating" it because of its backing for the Lebanese militia.

The TWA hijacking put a strain on Israel's most important relationship — with the United States. Neither side wants to be seen as giving in to terrorism, and each seems to feel that the other is being less than forthcoming in helping it to save face.

No one in Jerusalem suggests that Israel's problems in Lebanon would all disappear immediately if it gave up its security zone and truly withdrew. It understandably wants to put as much distance as possible between itself and the turmoil in Lebanon. Ultimately, however, the Shia Moslem majority in southern Lebanon is the group with which Israel must cultivate some kind of understanding.

Israel's argument when it invaded three years ago was with the Palestinians who had turned southern Lebanon into an armed base. The occupation lasted long after the Palestinians were gone. The Shiites, who had welcomed the invasion, turned against Israel. Israeli officials say they have tried repeatedly to reach some agreement with the Shiites but that all overtures get the same response: First pull out of Lebanon, then we'll see.

There is a strong argument that the risk is worth taking. The Shiites have proved to be as intent as the Israelis on keeping the Palestinians from returning to southern Lebanon.

Israeli withdrawal would mean the risk of abandoning Lebanese Christian militiamen friendly to Israel. It would also assume the risk that the more moderate Shia Moslems affiliated with Amal can hold their own against more radical elements.

Balanced against those risks, however, is evidence — the TWA and UNIFIL incidents — that the current policy is perilous indeed.

Los Angeles Times.

LETTERS TO THE EDITOR

Khans Before the Czars

In response to "Bulgaria Watches Its Image" (June 1) by Flora Lewis:

The official Bulgarian position, we read, is that "there are no Turks in Bulgaria" and that the people involved descend from "pure" Bulgarians converted under Ottoman rule.

Two Bulgarian khanates, one on the Volga and the other on the Danube, were founded by the Bulgars, a Turkic people. Today's Bulgaria is the successor state of the latter. Its rulers bore the Turkic title of khan and had Turkic names until they embraced Greek Orthodox Christianity and started to call themselves czars. Thus, long before the Ottoman empire absorbed the area at the end of the 14th century there were Turkic people in the region.

Bulgaria might first change its Turkic national name, if it wants to create a totally Slavic state, before it forcibly renames its Turkish and other non-Slavic citizens.

MEHMET RAGIP DEVRES.
Istanbul.

Managua: Elected or Not?

Has everyone forgotten that the elections in Nicaragua last November, despite Arturo José Cruz's loud abstention, saw one-third of the seats go to opposition parties? Since those parties are trying to work without military intervention and are on record as being against the "contras," should they not be given a chance?

Of course there were elections to cheer about in Chile and Turkey — when was it, now? Just how does one go about deciding when an election isn't an election after all? Is it acceptable only when 100 percent of the elected candidates are to one's liking?

ELLEN SIMER.
Zurich.

EUROBONDS

Vanishing Hope of Rate Cut Has Strong Market Impact

By CARL GEWIRTZ
International Herald Tribune

PARIS — The bottom fell out of the Eurobond market last week when expectations of an imminent decline in U.S. interest rates vanished. The latest U.S. economic statistics — showing much more rapid growth than had generally been expected, and a surge in the money supply — left the bond market convinced that this year's steady decline in interest rates is, at least temporarily, over.

"In the wake of these developments, a further cut in the discount rate is now unlikely," said Henry Kaufman, chief economist at Salomon Brothers.

Short-term Eurodollar rates, which had dropped some ⅜-point as the certitude of an impending rate cut spread, regained all of that and then some — ending the week up to ¼-point higher than a week earlier.

Especially noteworthy was the widening cost of money between one-, three-, six- and 12-month rates — re-establishing the natural curve in yields. The curve had flattened quite sharply as longer-term rates declined and the shortest term rates held steadier, awaiting confirmation of a decrease from Washington.

Eurobond Yields
For Week Ended June 19

U.S.$ lg term, Int'l inst.	10.52 %
U.S.$ long term, ind.	11.25 %
U.S.$ medium term, ind.	10.47 %
Can.$ medium term	11.04 %
French Fr. short term	12.37 %
Sterling medium term	11.26 %
Yen medium term, Int'l inst.	6.88 %
Yen lg term, Int'l inst.	6.97 %
ECU short term	8.76 %
ECU medium term	9.38 %
ECU long term	9.56 %
EUA long term	9.02 %
LuxF med term Int'l inst.	9.73 %
LuxF medium term	9.46 %

Calculated by the Luxembourg Stock Exchange.

Market Turnover
For Week Ended June 20
(Millions of U.S. Dollars)

	Total	Dollar	Non-dollar Equivalent
Cedel	17,073.0	13,448.7	3,624.3
Euroclear	31,058.1	27,566.1	3,492.0

On the foreign-exchange market, the dollar also fluctuated — dipping briefly below 3 Deutsche marks as interest rates sagged and recovering to 3.07 DM by week's end.

That gain was bad news for the nondollar sectors of the bond market, particularly for relatively low-coupon bonds denominated in DM and European currency units.

AT THE same time, the interest-rate moves that affected the exchange market undid the fixed-coupon sector of the dollar-bond market where yields have been set to anticipate further rate declines. Underwriters sought to maintain double-digit coupons — deemed essential for institutional investors who finance themselves in the short-term market — by extending maturities. Thus, the straight Eurodollar issues were virtually all for 10 years and carried coupons of 10 to 10⅛ percent.

There were two exceptions. A $100-million, 10-year issue from John Labatt Ltd., a Canadian beer and food company, carried a coupon of 10½ percent. The company's Canadian debt is rated double-A, but it is not known internationally and the issue is unsecured debt. As a result, it ended the week down 3⅛ points from the 99½ offering price.

The other was a Norwegian government-guaranteed issue for LFS, which finances the Norwegian shipbuilding industry. Its $50-million of five-year notes were priced at par carrying a coupon of 9¾ percent.

Among the 10-year, 10-percent issues, the initial demand for Electricité de France's paper was such that the amount was increased $100 million to $225 million. But the increase was badly timed to coincide with the report of the disappointing economic statistics and the paper was dumped, ending the week at 95 — a whopping big loss for underwriters still holding the paper.

Eurofima, which tapped the market for $100 million, ended the week at 96. Procter & Gamble ($150 million) fell to 96⅛.

Federated Department Stores, first of the week's new issues, offered a coupon of 10⅛ percent but ended trading at 96¼. Long Term Credit Bank of Japan also set a coupon of 10⅛ but fared better — ending the week at 99 — as the issue could be bought by Japanese institutional investors without regard to the prevailing constraints on their holdings of foreign-currency securities.

Issues not providing such hidden attraction are of no interest to the Japanese — the biggest buyers of dollar paper. Bankers report the Japanese are now heavily buying long-term, high-coupon Treasury paper in New York, preferring the extra yield they pick on 30-year bonds and the security of knowing the paper can always be sold in the highly liquid Treasury market.

New York investors, meanwhile, were big buyers of floating-rate notes now that the ¼-point margin over the London interbank offered rate — the old market standard — has been re-established.

This has been made possible by the new formula of maximum-coupon FRNs. The higher yield on the notes compensates investors for the lid on how high the floating coupon can climb. At the same time, borrowers continue to get cheap money — some claim a touch below the London interbank bid rate — thanks to their ability to sell the cap as an insurance policy to institutions looking for such protection.

The formula has become almost standard: In most cases it

(Continued on Page 17, Col. 1)

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

United States

	Last Wk.	Prev.Wk.	Ch'ge
DJ Indus.	1,324.15	1,300.96	+1.85 %
DJ Util.	166.85	164.60	+1.22 %
DJ Trans.	649.58	636.94	+2.04 %
S & P 100	182.89	180.93	+1.02 %
S & P 500	189.57	187.10	+0.98 %
NYSE Cp.	109.83	108.56	+0.92 %

Source: Prudential/Bache Securities.

Britain

FTSE 100	1,262.30	1,272.60	—0.87 %
FT 30	963.40	970.90	—0.77 %

Hong Kong

Hang Seng	1,516.13	1,441.97	+5.14 %

Japan

Nikkei DJ	12,634.76	12,685.25	—0.40 %

West Germany

Commerzbk	1,427.10	1,370.90	+4.10 %

Source: James Capel & Co. London.

Money Rates

United States	Last Wk.	Prev.Wk.
Discount rate	7½	7½
Federal funds rate	7 5/16	7 5/16
Prime rate	9½	10
Japan		
Discount	5	5
Call money	6⅛	6
60-day interbank	6¼	6¼
West Germany		
Lombard	6	6
Overnight	5	5 5/16
1-month interbank	5½	5 7/16
Britain		
Bank base rate	12½	12½
Call money	12¼	11¾
3-month interbank	12⅛	12⅝

Dollar	Last Wk.	Prev.Wk.	Ch'ge
Bk Engl Index	145.10	145.00	+0.06 %
Gold			
London p.m. fix. $	313.45	318.25	—1.50 %

Rate and gold data from Citibank & from James Capel.

Currency Rates

Cross Rates

June 21

	$	£	D.M.	F.F.	It.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	3.475	4.434	112.745 *	36.975 *	0.1767 *	—	5.597 *	134.93 *	139.93 y
Brussels(a)	62.1025	79.15	20.15	6.6075	3.159 *	17.868	—	24.115	25.0075 *
Frankfurt	3.0844	3.932	—	32.785 *	1.5665 x	88.69 *	4.961 *	119.69 *	1.24 *
London (b)	1.288	—	3.9388	11.9925	2,510.88	4.433	79.155	3.2903	318.56
Milan	1,967.70	2,506.50	638.30	209.14	—	565.48	31.671	762.66	7.912
New York(c)	—	0.777 ≠	3.063	9.335	1,954.00	3.4535	61.70	2.561	247.90
Paris	9.405	11.994	3.0495	—	4.7815 x	2.7047	15.129 *	3.647	3.7858 *
Tokyo	248.65	317.27	80.70	26.46	12.67 *	71.52	400.08 *	96.52	—
Zurich	2.5655	3.28	83.455 *	27.295 *	0.1307 *	74.095 *	4.123 *	—	1.0325 *
1 ECU	0.7219	0.5713	2.2457	6.8472	1,432.75	2.5312	45.2408	1.8772	181.803
1 SDR	0.995865	0.78075	3.06918	9.35859	1,950.81	N.Q.	61.881	2.5645	247.373

Closings in London and Zurich, fixings in other European centers. New York rates at 4 P.M. (a) Commercial franc (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (*) Units of 100 (x) Units of 1,000 (y) Units of 10,000 N.Q.: not quoted; N.A.: not available. (≠) To buy one Pound: $U.S.1.287

Other Dollar Values

Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$
Argen. austral	0.80	Fin. markka	6.37	Malay. ringg.	2.454	S. Kor. won	876.30
Austral. $	1.5214	Greek drac.	134.85	Mex. peso	290.00	Span. peseta	175.60
Austr. schill.	21.60	Hong Kong $	7.7645	Norw. krone	8.848	Swed. krona	8.88
Belg. fin. fr.	61.35	Indian rupee	12.44	Phil. peso	18.40	Taiwan $	39.82
Brazil cruz.	5,750.00	Indo. rupiah	1,117.00	Port. escudo	173.00	Thai baht	27.385
Canadian $	1.3655	Irish £	0.9804	Saudi riyal	3.651	Turkish lira	527.45
Danish krone	11.065	Israeli shek.	1,141.70	Sing. $	2.2343	UAE dirham	3.6725
Egypt. pound	0.7519	Kuwaiti dinar	0.3031	S. Afr. rand	1.9608	Venez. boliv.	13.80

£ Sterling: 1.2563 Irish £

Sources: Banque du Benelux (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham). Other data from Reuters and AP.

Japan Considers Bonn Plea

Bankers Want Securities Access

Reuters

TOKYO — The Japanese Finance Ministry is to consider whether it can allow West German banks to enter Japan's securities market without revising its securities and exchange law.

Tomomitsu Oba, the vice minister of finance, after meetings between Japanese and West German monetary officials, said at a news conference Saturday that West German banks wanting to launch securities trading will now start discussions with the ministry's securities bureau.

Hans Tietmeyer, the West German deputy finance minister, said Japan's legal separation of banking and securities activities was the major issue at the talks.

He said West Germany's universal banking system makes it difficult for German banks to meet Japanese legal requirements, so he has asked the Japanese Finance Ministry to think of ways to enable them to enter the securities market.

Mr. Oba, who headed the Japanese delegation in the talks, ruled out a bilateral solution such as that in a West German-U.S. agreement that let German banks into the U.S. securities market.

German bank subsidiaries in the U.S. securities market were already there before banking and securities activities in the United States were separated, Mr. Oba said. He added: "The case of German banks in Japan cannot compare with their historical U.S. position."

He said, however, that the ministry would now discuss, on a case-by-case basis, the West German banks' wishes to start trading securities in Japan.

"We want to study what we can do to meet the German request within the framework of the existing law," Mr. Oba said.

The first talks, to be followed by more in Bonn this fall, also discussed Japan's request for Japanese banks to lead-manage Euromark bonds, Mr. Oba and Mr. Tietmeyer said.

Mr. Tietmeyer said the Bundesbank in late April opened the way for foreign banks and their subsidiaries in West Germany to lead-manage such bonds on the basis of "reciprocity."

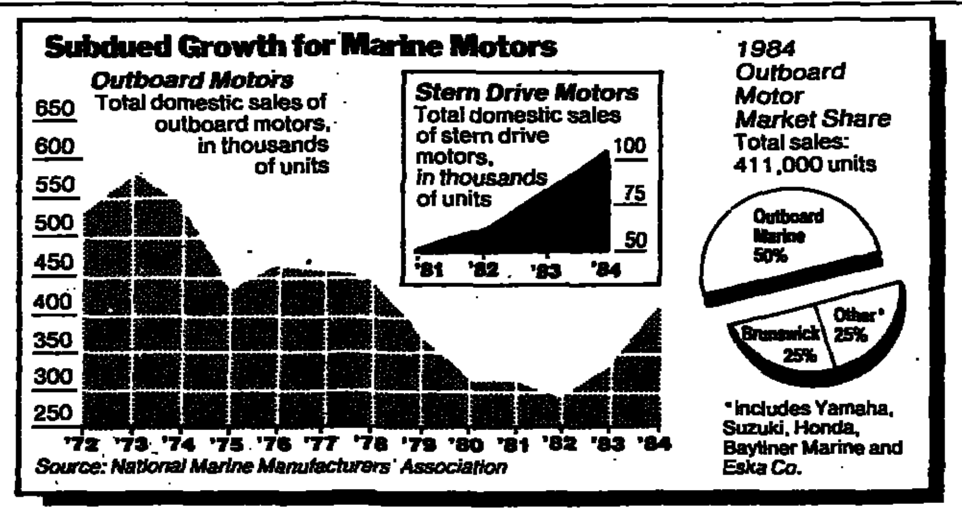
Because there is no such reciprocity yet in the Japanese market, Japanese banks have been excluded.

■ U.S. Call on Electronics

The U.S. Semiconductor Industry Association has filed a petition with Michael B. Smith, deputy U.S. trade representative, asking President Ronald Reagan to press Japan to dismantle barriers that limit sales of microchips, U.S. officials said in Tokyo.

The officials said Friday that the United States has also asked Japan to pledge not to aid Japanese semiconductor makers that may have overinvested during a slump in world demand for microchips.

Negotiators, led by Mr. Smith, raised the issue at talks on the electronics trade in Tokyo on Tuesday. They said they had proposed that the Japanese government make a public statement that it would not bail out companies that overinvested when they should have cut back.



Source: National Marine Manufacturers' Association

Engine Maker Races to Stay Ahead

Outboard Marine Faces U.S., Japanese Competition

By Jeffrey A. Leib
New York Times Service

CHICAGO — Charles D. Strang's love affair with outboard motors began in the 1930s, when he was a boy growing up on the South Shore of Long Island, cheering on a local racer named Benny Levy and his mahogany boat, the Baby Sink.

Mr. Strang, who set a record racing powerboats at university, is engaged in a race of a different sort today. As chairman and chief executive officer of Outboard Marine Corp., the world's largest producer of outboard marine engines, Mr. Strang finds other companies — in the United States and overseas — in close pursuit, introducing innovative engines and trying to undersell Outboard's Evinrude and Johnson.

One strong source of competition has been Brunswick Corp.'s Mercury Marine division, which pioneered a line of inboard-outboard motors known as a stern drive that are sold to boat builders for direct installation in new craft. Although the U.S. market for outboard motors is four times larger than that for stern drives today, the generally higher-priced stern drives are more profitable and their sales are expanding more rapidly.

Mercury has captured an estimated 60 percent of that market. But Outboard Marine, which now claims a 25-percent share of the market, is counting on its own new powerful Cobra line of stern drives, introduced this month, to help it catch up.

Outboard Marine is also facing increased competition from foreign producers. About one quarter of the company's sales have traditionally come from outside the United States. But like many U.S. companies, it has suffered from the strong dollar's continued drag on export business.

The industry leader must also contend with the growing presence of foreign producers in the U.S. market. Yamaha, for example, entered the United States two years ago, with a full line of outboard motors, from 2 horsepower to 220 horsepower. The Japanese company, which has 500 dealers compared with Outboard Marine's 4,100, would not disclose its market share. But industry observers say that this year it will easily take third position, behind Outboard and Brunswick. Other Japanese

(Continued on Page 21, Col. 6)

Murdoch to Buy 6 TV Stations Without Partner

By Richard W. Stevenson
New York Times Service

NEW YORK — Rupert Murdoch has become the only buyer in an agreement to acquire six television stations from Metromedia Inc. after Marvin Davis, the Denver oilman, announced he was withdrawing.

A spokesman for Mr. Murdoch said Mr. Davis's withdrawal would not stop the Australian publishing magnate from going ahead with the purchase, which was announced last month and which has a total value of about $2 billion.

Mr. Murdoch expects to file an application for a change in ownership of the stations' broadcast licenses with the Federal Communications Commission on Monday, the spokesman, Howard Rubenstein, said. As part of that filing, Mr. Murdoch will ask for a temporary waiver, of up to two years, of regulations that would require him to sell the New York Post and the Chicago Sun-Times, he said.

In a joint statement issued Friday, Mr. Davis said he had chosen not to become an equal partner in the company being set up to buy the television stations. He indicated that his equal partnership with Mr. Murdoch in 20th Century-Fox Film Corp. would not be affected by his withdrawal.

"We have decided not to exercise our option" to buy a 50-percent interest in the stations, Mr. Davis said. "Instead, we will concentrate on the development of our other investments, including 20th Century-Fox, and consider other investment opportunities."

It had not previously been disclosed that Mr. Davis's participation in the transaction was subject to this option. Mr. Rubenstein said that Mr. Murdoch alone had signed the contracts and that Mr. Davis had been given a chance to become an equal partner.

Mr. Murdoch's control of the Metromedia stations, all of which are unaffiliated with the three major U.S. networks, has given rise to speculation that he would like to create a fourth network. The stations are in New York, Los Angeles, Chicago, Dallas, Washington and Houston.

Mr. Murdoch and Mr. Davis announced last month that they had agreed to buy seven stations from Metromedia for about $650 million in cash and the assumption of about $1.35 billion in debt. They then said they would sell one of the stations, WCVB-TV in Boston, to Hearst Corp. for $450 million.

Analysts said that Mr. Davis's withdrawal might have been motivated by financial difficulty, but it was more likely that he had decided the stations were not worth the price.

At about 15 times cash flow, the purchase price for the stations was said by analysts to be extremely high.

Deficits Cast Shadow on Reagan's Sunny View of Economy

By John M. Berry
Washington Post Service

WASHINGTON — Late last month, President Ronald Reagan went before the annual meeting of the National Association of Manufacturers proclaiming that the U.S. economy had shown "solid growth" for the last nine quarters, "creating new jobs at the rate of hundreds of thousands each month."

He pointed proudly to a recovery in business investment, which he said had been the strongest in three decades, to rising productivity and to an inflation rate that was "at the lowest level in more than a decade."

Mr. Reagan's assessment comes at a time, however, when unprecedented trade and budget deficits and the latest round of indicators have raised concerns about how long the U.S. economy will continue to expand.

Some senior administration officials and many private economists worry about the way the trade deficit is dragging down growth. There is concern, too, about the fact that the United States, with a new reliance on imported capital as well as goods, soon will face the problem of how to pay interest on all the foreign money.

But the public emphasis is still on the brightness of the outlook, as it was last week when the Commerce Department estimated that the gross national product, adjusted for inflation, was rising at a 3.1-percent rate this quarter. GNP measures the value of goods and services, including income from foreign investments.

Because manufacturing and mining are being pounded by imports, GNP had increased at only a 2.2-percent annual rate in the last three of the nine quarters of which Mr. Reagan spoke. That was little more than half as fast as the administration had forecast.

The higher estimate for this quarter does not help the average much. The first-quarter figure was revised downward from 0.7 to 0.3 percent, leaving the current level of economic activity 2.3 percent higher than a year ago.

The slow growth has left the civilian unemployment rate stuck near 7.3 percent for almost a year. And the number of production hours and nonsupervisory employees in non-farm businesses has risen faster than output over the last year. That means productivity, contrary to Mr. Reagan's assertion, has risen little if any since the second quarter of 1984.

In manufacturing, nearly 150,000 production workers — more than 1 percent of such workers in the United States — had lost their jobs in the three months prior to the president's speech. Total manufacturing output was no higher than it had been 10 months earlier. Another 28,000 such jobs were lost in May.

The surge in business investment appears to be tapering off rapidly. The latest survey of investment intentions indicates that real spending on new plant and equipment will rise at a 4.4-percent annual rate in the third quarter of this year and 1 percent in the fourth.

More important, the big increase in business investment over the last two years appears unlikely to add as much to future levels of U.S. national income as the large totals would seem to imply.

First, the bulk of the growth occurred in spending for computers and business automobiles, according to research by Barry Bosworth, an economist at Brookings Institution. Because neither computers nor autos have very long useful lives, they must be replaced fairly quickly.

Second, the income from last year's surge in investment will have to be used to pay a return to foreigners who invested or loaned a net of roughly $100 billion in the United States in 1984.

Unpublished Commerce Department figures indicate that about three-fourths of last year's nonresidential investment went just to replace worn-out or obsolete plants and equipment. The remaining one-fourth, about $106 billion worth, represented the 1984 in-

(Continued on Page 17, Col. 6)

ASEA, Volvo to Expand Into Financial Services

Reuters

STOCKHOLM — Two of Sweden's most liquid companies, ASEA AB and AB Volvo, are setting up separate companies to handle financial services in a move that some bankers say will slow the growth of Swedish banks.

ASEA Kapitalfoervaltning AB is to manage group liquidity and foreign exchange and is applying for a dealer's license to act as an independent broker on the Swedish credit market.

Volvo's slightly less ambitious venture, AB Fortos, also was established to handle group foreign exchange and make Volvo more active on the domestic credit market.

Jacob Palmstierna, a director of Skandinaviska Enskilda Banken, said that the new companies do not pose a direct threat to Swedish banks.

"ASEA and Volvo are not going into competition with the banks on money transfers, political risk or foreign exchange," he said, "but this development could slow down the banks' growth."

The new companies probably would make inroads only into the high-volume but low-margin business in which banks act as brokers in arranging loans between businesses.

Lars Thunell, finance director for ASEA, said that a slowdown in bank growth was inevitable because of the high liquidity of Swedish firms.

ASEA, an electrical and electronic engineering group, has cash and marketable securities of nearly 7 billion kronor ($800 million). Volvo, an automotive, energy and food group, has liquidity of 16.7 billion kronor.

Total Swedish corporate liquidity is more than 150 billion kronor and because of Swedish exchange controls, the funds cannot be used for foreign investment or repayment of foreign debts.

Mr. Thunell said that ASEA's large capital resources would make it easier to handle funds on behalf of other clients as well as the parent company. But he said the company still supports a strong Swedish banking system.

"Money transfers are a bank's business," he said. "We will never match SE-Banken in foreign exchange and we much prefer leaving political risk to banks."

When AB Fortos begins operating later this summer, it will act as an internal bank for the group's foreign-exchange operations.

Unlike ASEA's new company, it will not compete with other brokers in the credit market although the group's funds primarily will be invested there.

Anders Jansson, head of money market operations at AB Fortos, said that the new venture was a decentralization of Volvo's financial operations, not an expansion into banking.

Curt G. Olsson, chairman of SE-Banken, said recently that banks had encouraged their corporate clients to bypass the banking system.

"To a certain extent we encouraged this ourselves since we did not dare to carry such enormous liquidity on our books," he said in an interview with the magazine Svensk Export.

International Bond Prices - Week of June 20

Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277
Prices may vary according to market conditions and other factors.

RECENT ISSUES

Amt	Security	Str/ Conv	Issue Pr.	Mid Pr.	Yield
$100	Canon Inc	3 % '00 Ju c	100	93½	3.57
cn$75	Genstar Financial Co	11¾ % '95 Jun s	100	98¾	11.97
$100	Export-Import Bank	10⅛ % '95 Jun s	100⅝	100⅝	10.25
dm 100	Malaysia	7½ % '95 Jun s	100	100	7.50
y 8000	New Brunswick Provinc	7⅝ % '95 Jul s	100	100⅝	7.89
$100	Aluminum Co Canada	11¼ % '95 Jun s	100	100¼	11.21
ecu 70	Dresdner Finance	9⅛ % '93 Oct s	100¼	100½	9.02
$125	Olympia & York Credit	10⅛ % '90 Jan s	100	99⅝	10.19
$100	Sanai Finance	11⅛ % '92 Jun s	100	101½	10.81
$150	Tenneco Corp	11¼ % '95 Jun s	100¼	96½	11.35
$100	Canadian Pacific	10¼ % '93 Jan s	100½	101⅞	10.39
dm 150	South Africa Transpor	8 % '93 Jun s	100	102⅞	7.53
$150	Volvo	10½ % '90 Jun s	99¾	100⅛	10.47
cn$100	Long-Term Credit Bank	11⅛ % '94 May s	100¼	105	10.23
dm 200	Quebec Hydro	7⅛ % '95 Jun s	100	99⅝	7.21
ecu 60	Sumitomo Corporation	9¼ % '93 Oct s	100	100	9.23
$150	Dai-Ichi Kangyo Finan	10⅛ % '90 Jul s	100⅝	100½	10.23
dm 150	Bank Of China	7 % '92 Jan s	100	98⅞	7.21
£75	Imperial Chemical Ind	11¼ % '95 Sep s	100	99¼	11.36
$100	Bank Of Tokyo Curacao	11⅛ % '95 Jul s	101¼	102	10.91
dm 150	Hoogovens	7⅛ % '95 Jun s	100	98½	7.57
dm 200	Eib Europ Invest Bank	7⅛ % '97 May s	99¾	100½	7.31
$100	Swedish Export Credit	10 % '92 May s	95	98⅝	10.23
$200	General Motors Accept	10¼ % '89 Jun s	100	101⅛	9.89
cn$100	Canadian Natl Railway	11⅞ % '93 Jan s	100	101¾	11.80
$100	Sanwa Intl Finance Hk	11½ % '92 Jun s	100	104½	10.55
nkr 250	Scandinavian Airlines	10½ % '93 Jun s	100¼	99½	10.72
$100	South Californ Edison	11 % '92 Jun s	100¼	102⅛	10.65
$100	Austrian Control Bank	10¼ % '90 Jun s	99½	102⅛	10.05
cn$75	Shell Canada	s	100¼	100¾	11.00

STRAIGHT BONDS
All Currencies Except DM

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
	AUSTRALIA						
$50	Australia	8¾	'86 Jun	98	11.06		8.93
$120	Australia	8½	'86 Oct	99½	8.76		8.53
$100	Australia	11¼	'90 Oct	106¾	9.58		10.55
y 15000	Australia	8½	'91 Aug	103⅝	7.73		8.20
	AUSTRIA						
	BELGIUM						
	CANADA						
cn$75	New Brunswick Provinc	12	'95 Jan	104½	11.19		11.48
cn$75	New Brunswick Provinc	11⅝	'95 Jun	101¾	11.32		11.43
y 10000	New Brunswick Provinc	7⅛	'95 Jul	100¾	7.89		7.11
$25	Newfoundland Lab Hydr	9¾	'86 Mar	100½	9.90		9.70
$75	Newfoundland Lab Hydr	17¼	'89 Nov	116	12.27		14.97
$35	Newfoundland Municipo	9¼	'88 Sep	97	10.36		9.54
cn$30	Newfoundland Province	10¼	'85 Dec	99¾	10.52		10.28
$20	Newfoundland Province	8½	'86 Mar	99½	9.15	9.15	8.54
$50	Newfoundland Province	9	'89 Feb	96	10.33		9.38
$60	Newfoundland Province	17¼	'89 Oct	116	12.17		14.87
$60	Newfoundland Province	13⅝	'90 Feb	105½	11.93	11.27	12.80
$50	Newfoundland Province	9¼	'90 Jun	96	10.72		9.64
	DENMARK						
	FINLAND						
	FRANCE						
$75	Sncf Nat Chemins Fer	13	'91 Feb	106¾	11.25	10.83	12.16
$50	Sncf Nat Chemins Fer	9	'92 Dec	90	11.01	12.34	10.00
$100	Sncf Nat Chemins Fer	12⅜	'92 Dec	101¼	12.07		12.22
$100	Sncf Nat Chemins Fer	11½	'93 Mar	106⅜	10.25		10.81
£40	Sncf Nat Chemins Fer	11¼	'94 Mar	100¾	11.09		11.17
ecu 45	Sncf Nat Chemins Fer	11¼	'94 May	109	9.69		10.32
ff 150	Total Oil Marine	9⅜	'87 Mar	97	11.31		9.66
	GERMANY						
$75	Basf Finance Europe	11¼	'87 Nov	102¼	10.08		11.00
$150	Basf Finance Europe	9⅝	'89 Feb	99	10.18		9.97
$165	Basf Overzee X/w	11	'88 Mar	103	9.64		10.68
	ICELAND						
	IRELAND						
	ITALY						
	JAPAN						
	LUXEMBOURG						
	MEXICO						
	MISCELLANEOUS						
	NETHERLANDS						
	NEW ZEALAND						
	NORWAY						
	SOUTH AFRICA						
	SOUTH AMERICA						
	SPAIN						
	SUPRANATIONAL						
	SWEDEN						
	SWITZERLAND						
	UNITED KINGDOM						
$25	Plessey Intl Finance	8½	'86 Jan	99½	9.05	9.06	8.54
$75	Rank Organisation	8¾	'86 Nov	99½	9.08	9.38	8.79
£40	Rank Xerox Finance	11	'92 Apr	98⅝	11.28		11.15
$25	Redland Finance X/w	9⅛	'91 Mar	92	11.19	11.75	10.22
£25	Reed (nederland)	16¼	'89 Mar	103⅛	15.48		16.24
	UNITED STATES AMERICA						
$100	Kellogg Comp	11¼	'92 Jan	105	10.14		10.71
$100	Kennecott Intl	9½	'86 Jun	100½	8.94		9.45
$100	Kimberly-Clark	12	'94 Dec	109	10.43		11.01
$20	Kimberly-Clark Intl	8½	'86 Apr	99¾	9.09	9.09	8.54

HIGHEST YIELDS
to Average Life Below 5 Years

HIGHEST YIELDS
to Average Life Above 5 Years

HIGHEST CURRENT YIELDS

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Security	First Maturity	Original Offering Amt	Original Offering Year	Price	Offered Price

(Continued on Page 18)

Herald Tribune International
Published With The New York Times and The Washington Post

BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT

Scoring Top Points In Secrecy Debate

By David B. Tinnin

GENEVA — A hot debate is growing between Europe's two prime refuges for private capital. Which has the more effective banking secrecy laws — Switzerland or Luxembourg?

To an increasing degree, the Luxembourgers are insisting that they are in first place. The motivation is simple. As more and more Luxembourg banks seek to attract private investors, the bank executives are learning that tight confidentiality rules impress potential clients. Although no one wants to be identified by name, some Luxembourg bankers readily admit that they describe their laws as being tighter and containing far fewer loopholes than those of Switzerland.

In addition, several prestigious Luxembourg lawyers are advising possible depositors that Switzerland has given away a lot of its secrecy safeguards in the past few years, notably in the mutual assistance treaty with the United States and a new Swiss federal law that obliges Swiss banks in some instances to cooperate with foreign fiscal and banking authorities.

The Luxembourg claim to be No. 1 has been buttressed by articles in the international press that have described Switzerland as no longer the financial fortress of old.

Inadvertently, the Swiss have hurt their own cause by engaging in a running public quarrel over the wisdom — or foolishness — of several recent federal practices that add to the cost and complexity of banking transactions in Switzerland. A prime example is the 6-percent sales tax on gold, a measure hurting Zurich's role as one of the world's leading gold markets.

Swiss domestic politics also have been damaging. The challenge to the banking secrecy laws posed by the Socialist Party of Switzerland, one of the country's largest political groupings, continually causes anxiety abroad about the stability of Swiss banking secrecy. Actually, the Socialists were beaten in a nationwide referendum by such a massive 3 to 1 majority that foreigners should have felt reassured about the solid Swiss support for a continuation of the status quo. However, the concern persists.

Ironically, it may have been helped by the much publicized acquisitions and moves abroad by the big Swiss banks whose actions have created the unsettling impression that maybe something really is wrong with Switzerland as a financial bastion.

Understandably, the Luxembourgers have charged through this psychological breech in Switzerland's long vaunted impregnability.

The Luxembourgers have a sound and well conceived banking law to brag about. Banking secrecy has, in fact, been a part of Luxembourg's financial life for many decades. However, it was not until 1981 that the present law went into effect. This law codifies the role of banker as being similar to that of clergyman or physician and binds him to keep secret the client's financial status from all third parties, except if the client commits a criminal offense.

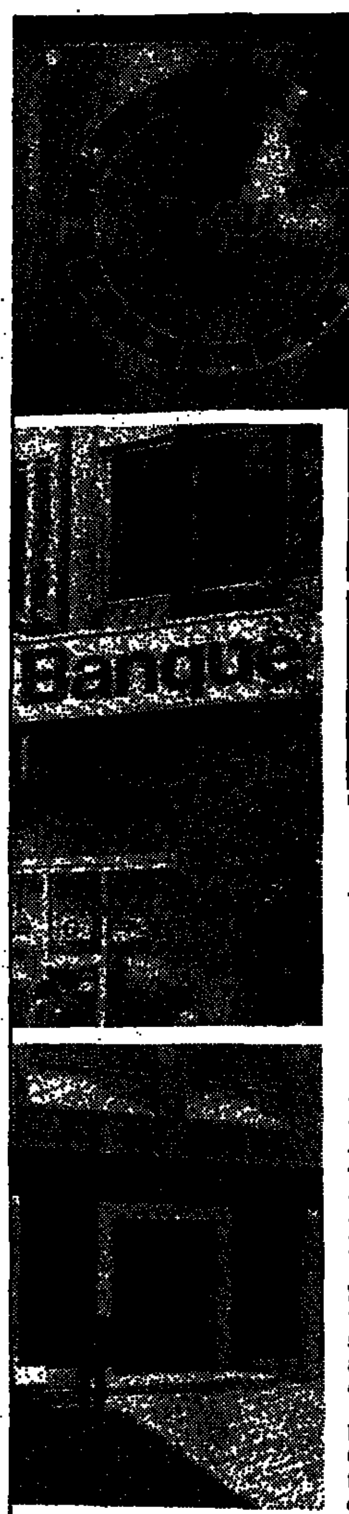
The 1981 law is highly innovative in providing what the Luxembourgers call "asymmetrical protection." That means that the asset side of the bank's balance sheet, including the big loans and exposures in Third World countries, can be disclosed both to Luxembourg banking authorities and to the home offices of banks operating in Luxembourg. But it also means that on the liabilities side of the ledger, where the deposits are entered, the names and amounts of the account holders are closely guarded.

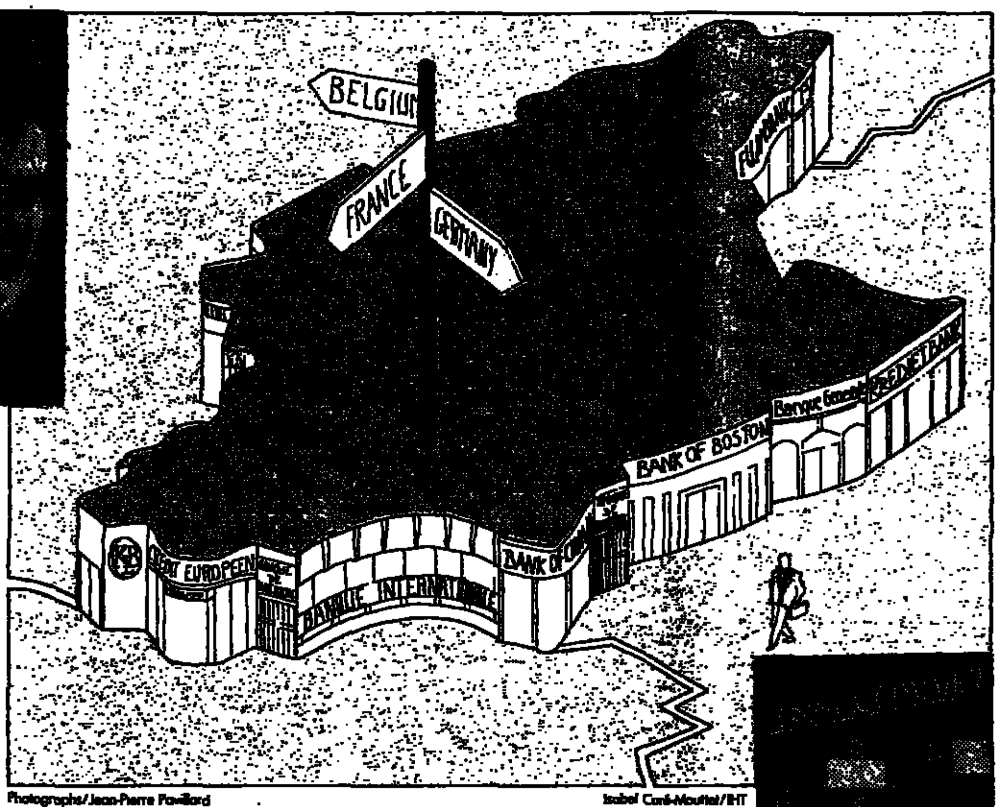
"The Luxembourg law fits nicely into the philosophy of the times," declared Voker Burghagen, the managing director of Dresdner Bank International. "The law enables large banks to assess their overall global exposure on a worldwide basis while at the same time guarding the depositors against prying official government agencies."

Alex Schmitt, a U.S.-trained Luxembourg lawyer, said he believed that "the Luxembourg law is as strong as and probably stronger than any other banking secrecy law in Europe."

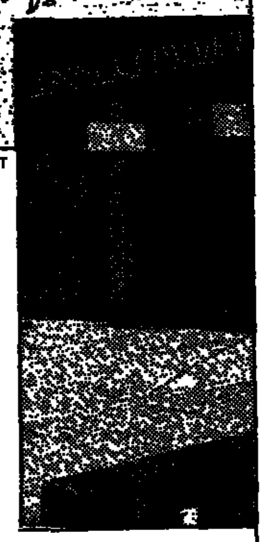
Despite all the talk about rivalry, the Luxembourg law and its Swiss counterpart are remarkably similar. In addition to the Luxembourg provision for asymmetrical protection, there are only a few basic differences. Perhaps the most important is that a depositor in a Luxembourg bank cannot waive the right to secrecy even if he or she wants to, while a Swiss depositor can renounce the right if such an act would be helpful. An example would be the use of otherwise se-

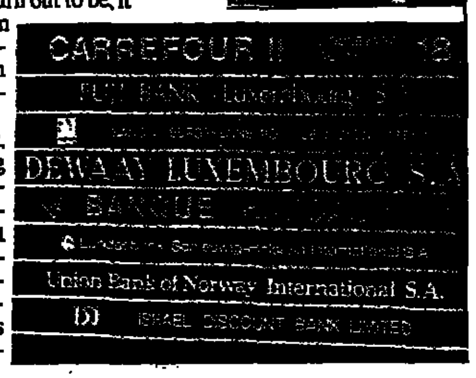
(Continued on Page 11)

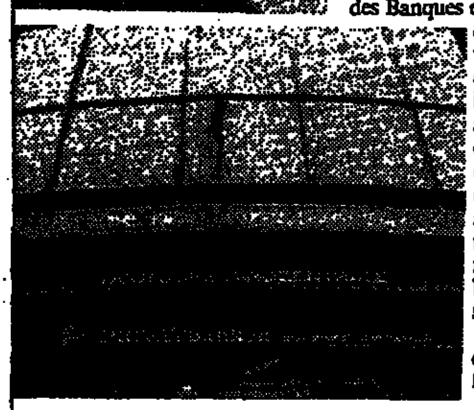




Photographs/Jean-Pierre Pouillard — Isabel Conti-Mouttet/IHT







Banking: In Search Of a Brand Image?

By Vivian Lewis

LUXEMBOURG — The number of banks operating in Luxembourg has risen to a record level, with the opening of Sumitomo Trust's subsidiary last month and the new Prudential-Bache International Bank (separate from the brokerage house).

Until the planned closure of Swiss Volksbank this summer, there will be 119 foreign bank subsidiaries in Luxembourg, as well as another 10 branches of other foreign banks.

Yet, the first study of Luxembourg's image — undertaken by Charles Barker, British consultants, on behalf of the Association des Banques et Banquiers de Luxembourg — has revealed that the grand duchy lacks a "brand image." Worse, the association's president, Rémy Kremer of Banque Générale de Luxembourg, said at a news conference that Asians polled mixed up Luxembourg and Liechtenstein.

While new banks continue to settle in Luxembourg, their prestige is lower. In the 1970s, Luxembourg's heyday, 10 world-scale banks per year opened their doors in the grand duchy. Whatever the newly formed banking arm of Prudential-Bache may turn out to be, it is unlikely to substantially add to the volume of business in Luxembourg Eurobanking.

As a Eurocenter, in fact, Luxembourg today is less important than it was a decade ago, now that Asian-dollar banking centers are competing, a range of financial alternatives to straight bond purchases are being offered in London, and New York has its own offshore banking system. In 1984, less than a quarter of all Euro-underwritings were participated in by Luxembourg-based banks and only 57 percent of Eurobond issues were traded on the Luxembourg stock exchange. While these figures are an improvement from 1983 levels (in part because of the effect of a high dollar in 1984), they are far from the levels of a decade ago, according to

(Continued on Page 13)

A Resurgence in Steel Industry As Banking Enters Flat Stretch

By Michael Metcalfe

LUXEMBOURG — Luxembourg is well into an era that may prove to be watershed years for its economy and industry.

Key economic indicators — growth, production, trade, inflation and employment — either showed improvement where deterioration had been expected or acceleration that was faster than had been forecast.

Gross domestic product, which was expected to drop in 1984 for the fourth consecutive year — perhaps by as much as up to 1 percent when banking services are excluded — actually returned to growth of about 4 percent, according to government estimates.

Steel, the mainstay of the grand duchy's social and economic strength, moved ahead for the first time in 10 years during 1984 and into 1985. However, banking, for the past decade the keystone of state policy to grow and diversify away from a single product, was flatter.

Political and economic continuity were assured by the return to power after national elections last June of Finance Minister and President Jacques Santer's conservative Christian Social Party, albeit in a coalition that brought in the opposition Socialists at the expense of the Liberals.

"The contours of government policy may have shifted slightly with the entry of the Socialists, but the main lines of economic and financial policy remain unchanged," a government official said recently.

The election, which produced few surprises except for pushing the Liberals into opposition for the first time in 15 years, reflected the tradition of consensus politics and negotiated compromise built up by Luxembourg over the past century.

Propelled by more dynamic external demand, a sharp resurgence in the steel sector gave the cutting edge to the economic recovery last year.

Gross steel production jumped by 21 percent in 1984, after declining 17.9 percent, 7.4 percent and 6.2 percent in 1981, 1982 and 1983 respectively. Government efforts to reshape the industry appear to be paying off; from 1974 to 1980 production capacity dropped by 15 percent.

ARBED, still the country's largest single employer and exporter and Europe's fourth-largest steel producer last year, has returned to the black for the first time in a decade. Operating profits were up 25 percent and sales up 18 percent at 10.5 billion and 56.7 billion Luxembourg francs respectively.

The government has cushioned the monolith against the worst of the international steel crisis by topping up its capital resources with periodic injections of funds and share purchases, which have resulted in the state raising its share in ARBED to 30.8 percent, making it the largest single shareholder.

Financing earmarked over the short term amounts to a little more than 9 billion francs. ARBED continues to remain a charge on government finances until it starts paying taxes again once its debt burden is sizably reduced, government officials said.

ARBED's workforce has shrunk to around 14,000, a drop of more than 40 percent from peak levels a decade ago, with the figure expected to stabilize around 12,500 by 1987.

The government is not pinning its hopes on the continuation of the brisk pace of the revival in steel during 1985, however. "There is a degree of uncertainty as to demand for Luxembourg's steel products; we believe it will be more subdued, so that the external contribution to growth will probably diminish," an Economics Ministry official said.

Official forecasts for real GDP growth this year call for expansion in the vicinity of 2 percent, an estimate broadly in line with projections of the Paris-based Organization for Economic Cooperation and Development.

According to the organization, unemployment in the grand duchy peaked at the beginning of 1984 at a little under 2 percent of the total workforce of 160,000.

The government's manpower policy of retraining projects and encouraging occupational mobility, coupled with an increase in industrial production, largely contributed to the decline.

Moreover, the government's policy of finding a new job for every one lost in the steel sector has also played its role in keeping unemployment levels down.

Overall industrial production last year jumped by between 12 and 14 percent, a sharp increase compared with 1983 levels when output in all sectors averaged a 4.5-percent rise. The export-oriented sectors of industry performed best, with construction lagging sharply.

One of the biggest surprises in the general economic picture last year was the sharp deceleration in the pace of domestic inflation.

The 1984 forecast by STATEC, the government statistics board, that inflation would "slow down only slightly, with a considerable risk of unexpected difficulties," proved unfounded. In fact, the reduction in inflation speeded up to bring the final rate down to 5.7 percent from 8.6 percent in 1983.

Measured against its European neighbors, Luxembourg was at the lower end of price increases in the European Community's 10 member states during 1984, with Greece at the top with 18.3-percent inflation and West Germany at the bottom with 2.4 percent, according to Eurostat, the Common Market statistics bureau. However, now that wage indexation has been resumed after being suspended in 1982, when a devaluation of the Belgian and Luxembourg francs threatened a stampede in prices, the resulting automatic increases in wages and salaries could boost householders'

(Continued on Next Page)

The Duchy Makes It Official: Lëtzebuergesch Spoken Here

LUXEMBOURG — It was only in February 1984 that the first of the four languages most Luxembourgers speak was raised to official status. The language is called Lëtzebuergesch, or Luxembourgish, and is a dialect of German origin.

Under last year's decree, which was written in French, this language was made the official national language, but laws will continue to be published only in French. Then, too, Luxembourgers will continue to read newspapers largely in German, to be schooled largely in German and French, to worship in their churches largely in German. In high schools, students will have an hour of English studies per day — and an hour of Lëtzebuergesch a week. This will help train them to be good Europeans and international bankers.

The language is spoken by almost all the natives of this country. It has been used in printed form (although how to spell it is still disputed) since the early 19th century. Luxembourgers, in their German or imported French newspapers, increasingly are using their own language for family advertisements (announcing births and deaths). And, in a proof of linguistic vitality, there is even a Lëtzebuergesch censorship scandal.

Josiane Kartheiser, a journalist and playwright, found her latest comedy, "Härgottskanner," banned from the boards of the municipal Théâtre des Capucins. The leftist writer, who works for the German-language newspaper Tageblatt, has some jokes about birth control and the pope's visit to Luxembourg in her play, which was scheduled to open before the papal visit in mid-May. To spare offense to "De Poopst," the aldermen of Luxembourg City refused to provide financing or a site for the production despite earlier commitments to do so. Miss Kartheiser was only formally notified of this 12 days before opening night, too late for another theater to be rented.

However, censorship is hardly the biggest problem facing Luxembourg culture. In a country with 269,000 natives and a total population of 364,600, the real threat to tradition are the "little Luxembourgers" who speak Italian or Portuguese at home, to cite the largest number of immigrant workers (the two groups account for 51,600 people). In negotiations on the entry of Spain and Portugal into the European Community, Luxembourg was very reluctant to allow free movement of workers from these countries within the EC, and special restrictions were permitted for the grand duchy.

Luxembourg literati, who usually have a second job, like Miss Kartheiser, are convinced that any new arrivals will eventually dissolve in the national melting pot, just as earlier immigrants from Italy have done. The government press spokesman, Lex Roth, who was instrumental in getting Lëtzebuergesch made official, is optimistic. "Among third generation Italians, most speak Lëtzebuergesch but can't speak Italian," he noted. "The same will happen with the Portuguese."

The immigrants come to Luxembourg because there is need for them here, precisely because of the problem Miss Kartheiser spoofed in her play: depopulation. Most Luxembourgers are not so devoted to their culture and language that they will produce babies to perpetuate it and the result is a declining population of natives.

The Luxembourg slogan, "*Mir wölle bleiwe wat mir sin*" (We want to remain what we are), still stands stenciled on the walls of a café on the Rue de la Loge in the Old City. But behind the walls today, there is a Greek restaurant.

Yet for a tiny country, cultural life is reasonably lively. There is a native pop star, even if "Buffalo Wing" sings country-and-western music in English. There is an English-language weekly, The News

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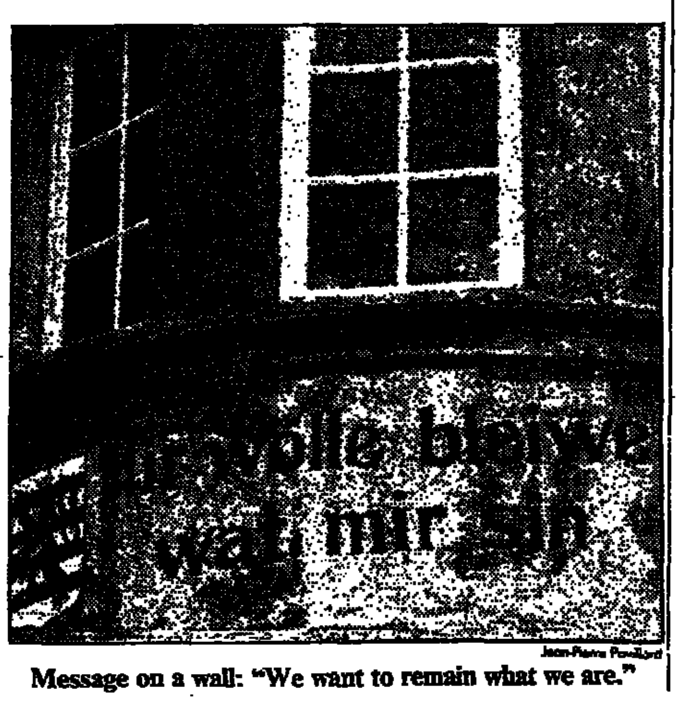


Jean-Pierre Pouillard

Message on a wall: "We want to remain what we are."

A SPECIAL REPORT ON LUXEMBOURG

Bank Regulations Being Tightened, But Discreetly

LUXEMBOURG — At a time when the world's central bankers are pondering the need for greater checks and balances in international financial markets coupled with banking liberalization and diversification, Luxembourg is discreetly putting the finishing touches to its regulatory system.

As the country with the greatest banking concentration in the European Community, Luxembourg's 119 banks also enjoy the most banking freedom, although the grand duchy over the last 40 years has been at great pains to define the parameters of orderly market conditions and banking business.

"The fundamentals of the regulatory framework prevailing in Luxembourg have been virtually brought to completion now," said Pierre Jaans, director-general of the Luxembourg Monetary Institute, which supervises banking in the grand duchy.

The authority, which celebrates its second anniversary this June, sprang out of the Banking Commission established by grand ducal decree in 1945 to protect savings and ensure compliance with laws and regulations related to financial institutions and their operations.

Since 1945, the commission, followed by the institute, has been delegated a broadly defined role in the supervision of Luxembourg's financial markets, embracing control of the credit market and foreign exchange, legislation in monetary matters and the registration of securities.

Commercial bankers of all nationalities operating in the grand duchy feel comfortable with the monetary institute's aims and activities, holding the director in considerable esteem for the authority's ability to act quickly and decisively when the occasion warrants it.

One such occasion arose out of the problems associated with the Banco Ambrosiano episode in 1982. When the Italian bank's Luxembourg holding company halted payment, the parent bank in Milan did not step in on the affiliate's behalf and the Italian central bank refused to intervene.

Although holding companies did not fall directly into the commission's orbit, the banking commissioner, as Mr. Jaans was known at that time, promptly issued an ultimatum to all Italian financial holding companies operating in Luxembourg: either provide a letter of guarantee from the parent bank or leave.

The action, decisive as it was, helped to forestall further disruption on the unsettled money markets and enhanced Luxembourg's reputation as a finanical center where orderly institutional and market conditions were regulatory priorities.

"Luxembourg's banking supervision is certainly not lax; that is documented both by day-to-day practice and by the prompt and strong reactions in situations that threaten to endanger the banking center," said Ekkehard Stork, managing director of Deutsche Bank's Luxembourg subsidiary, citing the Ambrosiano case.

The German banker also told a seminar recently that efficient, stringent banking supervision in Luxembourg could not by any means be said to conflict with the principles of liberality or pragmatism.

"The banks' freedom of action is not restricted any more than necessary; wherever possible, recommendations and gentlemen's agreements are given preference over codified regulations. The laws, decrees, injunctions and recommendations are not one-sided edicts imposed from above, they are generally issued after in-depth discussions among all involved," Mr. Stork added.

Cooperation between supervisory authorities and commercial bankers over a number of years paved the way for the single-debtor rule.

The measure, which went into force from January this year, specifies that in an intermediate three-year period aggregate lending of one bank or financial institution to a single entity or economic group should not come to exceed 50 percent of the bank's own funds, with the limit falling to 30 percent in the next two years up to the end of 1989.

Explaining the move, Mr. Jaans said a first round of discussions on rules limiting loans to a single debtor or to a proportion of a bank's capital and reserves had taken place in 1981.

The 1983 crisis at Schroeder, Muenchmeyer, Hengst, a German bank that overstretched itself in problem loans to a failing German construction group, taught bankers that financial institutions run the greatest risks when exposure to single borrowers becomes excessively large, and when regulatory systems prove inadequate.

Thus, the Luxembourg banking community was already beginning to take regulatory steps to limit single-debtor exposure well before the troubles at Schroeder, one of the 30 German banks represented in Luxembourg, came to light.

Mr. Jaans said the Schroeder incident enhanced bankers' state of preparedness for the introduction of the single-debtor limit in Luxembourg. "While the measure was not specifically prompted by SMH, it proved to be in the interests of all to expedite the ruling," he said.

With Schroeder's Luxembourg subsidiary, once the storm broke, the Monetary Institute took swift action to ensure that the bail-out operation by West German banks also encompassed the Luxembourg unit.

"SMH was not a typical case of a bank stumbling over cluster risks, but an example of a very specific policy pursued to meet a certain end and which would be pursued even if stricter regulations apply," Mr. Jaans observed.

German banks, and automatically their Luxembourg affiliates, now have to contend with consolidation procedures resulting from a revised German banking act, which also limits single-debtor lending, so that the Luxembourg ruling applies only to those banks not included in the consolidated figures of a foreign parent.

With the moves toward greater deregulation, the opening up of new markets and innovative financing instruments sweeping financial centers like London, New York, Tokyo, Frankfurt and Paris, the question arises whether Luxembourg should follow suit.

According to commercial bankers and supervisory authorities in the grand duchy, calls for liberalization have not arisen in view of the country's prior policy of financial flexibility and supervisory pragmatism.

"The regulations here are always applied very flexibly; certain exemptions are always possible, though understandably there must be justification," said Jean Krier, general manager at Banque Internationale à Luxembourg, now in its 129th year of operations in the grand duchy.

The abolition of withholding tax by countries like the United States, West Germany and France last year has failed to drive business away from Luxembourg. On the contrary, the move has brought more private customer banking into the grand duchy.

The growing diversification of Luxembourg banking away from an overriding dependence on wholesale business — particularly in the Euromarkets — into private customer and commission business, has brought with it the need to clarify and augment existing regulations.

The mushrooming growth in banks' fiduciary and other off-balance-sheet business has led to a clarification of the legal status surrounding such transactions, first in 1982 and later in 1983, setting guidelines for the proper handling of fiduciary deposits.

"Whereas it is quite clear that fiduciary business does not pose an insolvency risk to banks, there is a question of handling risk. A bank may be liable to mishandling and that risk we wish to avoid," Mr. Jaans said.

While the growth in off-balance-sheet business has accelerated in recent years, spurred by the promise of increased commissions at a time when interest margins on Euromarket and other on-balance-sheet wholesale business grow slimmer by the day, the expansion as yet has not proved of major concern to the Luxembourg authorities, Mr. Jaans said.

The plethora of investment funds set up in the grand duchy after the law on holding companies was changed in 1983, numbering 132 at the end of 1984 and expected to reach 180 by the end of this year, is a phenomenon viewed by the Monetary Institute as providing good business to banks and, indirectly, to Luxembourg.

"The development, though brisk, is to be seen as another logical move toward diversification into other banking areas," Mr. Jaans said.

Other regulatory and deregulatory provisions, such as a strengthening of bank secrecy laws enacted in 1981, the removal of value-added tax on gold and the absence of a withholding tax on nonresident deposits, have in their turn encouraged the growth of private banking.

Illustrating this development, Mr. Jaans noted that the ratio of private to bank liabilities has risen from 1:8 at the end of 1979 to 1:4 at the end of 1984. "It shows that banks appear to have been successful in efforts to become less dependent on the interbank market and to diversify their funding structure," he said.

"Such efforts are to be welcomed as contributing to a healthy and stable banking environment," Mr. Jaans said.

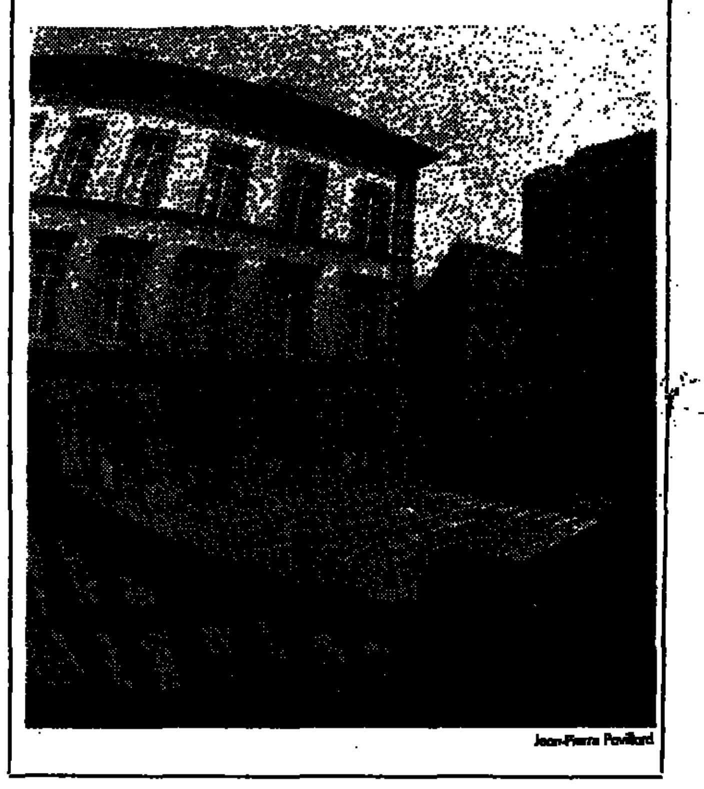
Moreover, in a banking environment where there are no minimum reserve requirements and where the solvency ratio between capital resources and aggregate liabilities is a low minimum 3 percent but nearer 4 percent in practice, the financial community has sound reasons to feel at ease with the present liberal state of supervisory control without daring to abuse it.

— MICHAEL METCALFE

Jean-Pierre Pavillard

A hospital in the the capital, above. Below, two views of central Luxembourg.

Jean-Pierre Pavillard



Jean-Pierre Pavillard

Steel Recovers, Banking in Flat Stretch

(Continued From Previous Page)

purchasing power and in turn rekindle inflation. The mechanism, despite its inflationary tendencies, should help to speed up recovery in sectors closely related to growth in domestic demand, such as housing construction and consumer goods, areas that have been sluggish during the recession.

The growth in exporting sectors helped Luxembourg to reduce its trade deficit slightly in 1984 to about 22 billion francs from 1983 levels, which had dropped to 24.7 billion from 22.6 billion in 1982.

This trading balance, which has been negative since 1975, continued, however, to be tilted in its favor by a hefty surplus in the services sector, primarily from placement and investment income generated by Luxembourg's many banks.

As well as banking, tourism tends to compensate for the trade deficit, and Luxembourg usually notches up a healthy surplus on its current-account balance of payments. Last year was no exception, and the surplus in 1985 is forecast by the OECD to remain at around 25 percent of gross domestic product.

Banking-sector activity, while remaining a key plank in the government's platform of economic redeployment, is beginning to show signs of flattening out. The period of staggering growth, which, according to the OECD, averaged an annual 16.5 percent expansion in volume between the 1970s and 1981, has slowed.

Diversification into new markets and institutions has played its part in consolidating banking activities, although with a share of more than 26 percent in gross domestic product, banking, insurance and finance combined almost rival that of industry's 29.5-percent share.

Bank profits before provisions, after climbing in the early 1980s, peaking in 1983 at 68.7 billion francs and dropping to 67.9 billion in 1984, still account for a sizable chunk in tax revenue to the Luxembourg authorities, without which the Finance Ministry would find it harder to balance income and expenditure.

Moreover, as Banque Internationale à Luxembourg noted in its 1984 annual report: "The partial redirection of the activities of the Luxembourg financial center has benefited employment in the banking sector, which increased once again in 1984, going up by 358 to reach a total of 9,382 persons employed in December."

The numbers employed in the banking sector represent almost six percent of the grand duchy's total employment, compared with just 3.7 percent in 1974.

Curbing unemployment and bailing out the steel industry have left their dents in the grand duchy's public finances. As government officials concede, the rescue plan is the principal reason behind the budget deficits seen in recent years.

"Had it not been for additional expenditure pumped into restructuring the steel sector, the final 1983 budget might even have shown a 3-billion-franc surplus instead of the 2-billion deficit that turned out," a Finance Ministry official said. In fact, the 1984 budget returned a slight surplus.

Strict budgetary control has been one of the watchwords of the former government, and the present administration, under the continued stewardship of Mr. Santer, is maintaining this course, submitting a draft 1985 budget that projects a small surplus of just under 1 billion francs.

The government will need all the revenue it can get in the future, committed as it is to a policy of industrial diversification without selling out the steel industry. To achieve this, it is maintaining temporary indirect and direct taxes first imposed in 1983 until the steel sector is back on the right tracks.

Since 1976, the grand duchy has followed an ambitious program to attract new industries in sectors ranging from high technology to aluminum. As of the end of 1984, nearly 4,000 new jobs had been created by some 58 firms taking advantage of tax breaks and good industrial locations to set up plant in Luxembourg.

The figures, although small in relative terms, count for much in a small country of 999 square miles (2,588 square kilometers), where about 2,780 unemployed make up 1.7 percent of the labor force and where "smallness" has never proved a handicap in coming to grips with pressing economic and industrial problems.

Do Funds Prefer Home-Style Haven In Grand Duchy?

EDINBURGH — When international fund managers or investors are comparing havens, Luxembourg can lose out despite the strength of its bank secrecy laws. Other factors — ranging from a slow administration to high fees, from differences in legal systems to memories of past scandal — often get in the way of Luxembourg's attractions.

To quote one fund manager, whose group has domiciled several funds in faraway Caribbean Islands, he has rejected Luxembourg because "all I get is harrassment. They are nitpickers and make life miserable because they want Luxembourg to be taken seriously, and not just to be treated as a tax-haven. Yet when we really needed authorities, as in the Ambrosiano case, they were not there, and told us 'we are only a haven.' "

While this fund manager is perhaps harshest of all about Luxembourg, other British managers funds also have had difficulties with Luxembourg. John Wood, lawyer for the fast-growing Dunedin fund management company in Edinburgh, explained why his group's offshore preferences are Bermuda and Guernsey: "They are reasonably close to our standards because the legal systems follow ours. You can't even have a 'unit trust' in Switzerland and I am not sure we would find a Luxembourg SICAV as attractive." A SICAV is a closed-end fund which is publicly quoted in Luxembourg, but, unlike British investment trusts, it is redeemable at asset value, not the quoted price.

Another problem Mr. Wood cited is the "sheer legal costs, costs of maintaining a quote, costs of prospectuses."

Mark Adam Parkin, whose Foreign & Colonial Management Group is the oldest operator of investment trusts in the world, has three offshore funds — for Europe, Asia and America — operating out of Luxembourg. Yet Mr. Parkin's group decided not to use Luxembourg as the domicile for its new money-market and bond funds, and set up in Jersey instead. These funds allow investors to switch from one currency to another and from long- to short-term. "Luxembourg couldn't do a multiclass share structure because under their country law it meant a long, drawn-out affair, we were told by our lawyers there (Elvinger & Hoss)," Mr. Parkin said. "Our attitude is that if it was going to be that difficult, we didn't want to bother."

Another British fund manager said he thought that "getting a listing on the London stock exchange is easier to achieve than a listing in Luxembourg and means more to me." Channel Islands funds allow British corporate tax refunds to be claimed. Being a telephone call away means that local staff can be kept to a minimum, cutting costs. Mr. Parkin said that he also feels that the secrecy and bearer shares of Luxembourg create a problem for fund managers who "do not know who the shareholders are." Not only is there danger of problems with the U.S. Treasury over the bond fund — which can only be sold to non-Americans — but also "we can't use the share register as a marketing tool." To Mr. Parkin, too, "it is an unclear grey area if Luxembourg counts as a recognized stock exchange if we want to market funds in Britain."

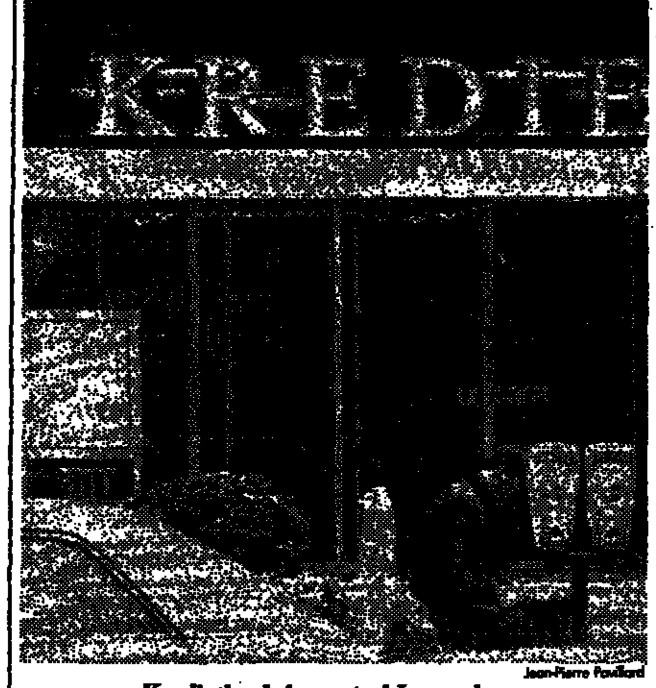
Yet, for others, the Luxembourg tradition of bearer shares and its recent secrecy law are an attraction. And because Luxembourg is in the Common Market — which the Channel Islands are not, Japanese institutional investors may buy Luxembourg funds, but not Jersey or Guernsey ones.

When Capital Preservation Fund was going international from its Palo Alto, California, home, it decided to put the offshore fund in Luxembourg to tap the Japanese institutional market. And for marketing reasons too, the U.S. managers preferred to be within the EC for its Capital Preservation Fund International.

Luxembourg has a better image than most island havens. "Luxembourg is the only EC tax haven," according to Seth Bernstein of Capital Preservation.

When Crédit Chimique of France was seeking a site for its innovative open-ended mutual fund (denominated in European Currency Units, or ECUs), Luxembourg, which is an important market for the composite currency, was considered. But, according to fund manager Xavier de Bayser of the Paris bank, another advantage of Luxembourg was that "unlike Jersey, we could set up a SICAV in Luxembourg. In Jersey we would have had to set up a mutual fund."

By using the SICAV model, the operators of the ECU-denominated fund, which is called Monceau-Europe, can opt whether or not to redistribute income; if it is not distributed to shareholders it can be reinvested automatically, thereby giving the fund an assured rate of growth as long as it performs well. Then too, as Mr. de Bayser explained, "it is possible to have a client in overdraft with the SICAV." In effect, the fund, which is aimed at corporate treasury and insitutional accounts, will lend to shareholders who may have a short-term deficit in their accounts. Many U.S. money market funds also offer this option.



Jean-Pierre Pouillard

Kredietbank in central Luxembourg.

Another French fund likes Luxembourg precisely because of its stock market link. U.S. or U.K. authorities do not allow prices of funds to be set by the managers — on the basis of net asset value — at the same time supply and demand are working. Under U.S. or British law, closed-end quoted funds often are quoted at a discount because fund managers cannot themselves operate to regulate the listed price, as they do in Luxembourg. Still, being quoted is a marketing tool.

"Individuals cannot be solicited to invest in our fund in Belgium or in Germany," said Jean Pierson, fund manager of Cortexa, International, a Luxembourg fund run by France's Paribas group. "But quotation gives us access to our actual and potential clients in those countries." His group considered setting up in Switzerland rather than Luxembourg when the fund was set up in 1980: "What we did in three months would have taken us two years in Switzerland," he said.

Another Luxembourg advantage is that Luxembourg companies or holdings are "a collateral base which you can borrow against," according to Gilbert de Botton, chairman of Global Asset Management, which has yet to benefit from that advantage. "This is not the case for holdings in Liberia or Panama." GAM has three funds each in Bermuda, Bahama and Curaçao, plus six British funds, but none so far in Luxembourg.

British Investment Trusts may and do borrow to provide capital to increase investments for their shareholders.

Legally, U.S. citizens cannot seek Luxembourg fund ownership. Americans are not allowed to purchase funds whose prospectuses have not been approved by the U.S. Securities and Exchange Commission. However, most Luxembourg funds will accept such investments, on condition that the paper trail is not direct; that means a check from a non-U.S. bank, a foreign address, a cut-out. The only exceptions are funds aimed specifically at foreign purchasers of Treasury bills, like the Luxembourg Capital Preservation Fund, or, for that matter, the Jersey Foreign & Colonial Reserve Asset Fund Ltd.

For Americans to hold such Treasury-bill funds not only violates securities laws, it also is tax evasion — an even more serious offense when the funds are buying U.S. Treasury paper. Tax evasion, however, is why many investors go offshore in the first place, so for more widely-invested funds, there is a tendency to not question the investor too closely on his nationality.

— VIVIAN LEWIS

The Incentive System: More to Come

LUXEMBOURG — With its secure position among the world's leading financial centers, Luxembourg has learned to fine-tune its incentives to the rapid shifts in global borrowing and lending patterns.

With new investment instruments springing up through deregulation and liberalization, the grand duchy's 117 banks cannot afford to fall behind in the race to offer customers the best terms.

"Our policy is, and must be, to develop special opportunities and to find special niches," said Jean Krier, general manager at Banque Internationale à Luxembourg, one of the country's three big domestic banks.

The escalation in the number of new investment vehicles, while offering clients a wider spectrum of funding possibilities, also has its inherent dangers in the threat of overshadowing more orthodox but tried and tested instruments.

Luxembourg-based bankers, in recent interviews, insisted that the general policy of banks operating in the grand duchy lies in fashioning an alliance between the more traditional financial incentives available to customers and the new instruments emerging on the world's financial markets.

In Luxembourg's special case, the key element of its emergence as an international financial center was the ability to mold its market place to suit the shape of the forming Eurobond market and Euromarket during the early 1960s.

In fact, the name of Luxembourg became synonymous with Eurobonds.

"As far as, at least, the initial stage of development of this banking center is concerned, I believe that it is intimately tied to the birth of the Euromarket and, particularly, the Eurobond market," Edmond Israel, executive board member of Banque Internationale à Luxembourg, said.

The incentives for Eurobonds were already in place in the grand duchy: the absence of any withholding tax on interest paid on foreign bonds out of Luxembourg; a stock exchange designed from its creation in 1929 as a vehicle for the listing and trading of international securities; and the presence of a number of banks with the expertise to act as paying agency and safe custodian of international securities.

The incentives were in part responsible for the development of the Eurobond market from a total issue volume of barely $300 million by 1963 to a cumulative total of nearly $300 billion by the end of 1984.

The compulsion to move with the times and to keep abreast of new developments by constantly ensuring that the right incentives remain in place has helped to keep Luxembourg in the top league of players in the Eurobond market.

However, the task is arduous. Luxembourg's market share in Eurobond issues, after slipping to 16.3 percent in 1982, has regained a firmer footing over the past two years, rising to 24 percent in 1983 and 21 percent at the end of 1984.

In terms of total deposit volume in Eurocurrencies, Luxembourg's market share has shrunk from a peak of 11.4 percent in 1979 to a present 8 percent, though the rapid rise of the dollar against the Deutschemark — in which almost 40 percent of Euroloans extended by Luxembourg banks are denominated — has played its part in whittling down the proportion, bankers said.

A potential threat to the incentives offered by Luxembourg in its role as a Eurobond market player — the abolition by the United States last year of withholding tax at source on interest payments to U.S. nonresidents on securities — in fact failed to materialize.

Whereas the American regulations required U.S. securities to be issued in the name of the holder, Luxembourg's strict bank secrecy laws continued to ensure that European investors enjoyed anonymity in their transactions, often a vital ingredient and powerful incentive in investment portfolio management.

The absence of any noticeable funds moving out of the grand duchy following the U.S. relaxation, which was quickly followed by similar moves in West Germany and France, appears to suggest that the incentives Luxembourg offers in its handling of Eurobond business are strong enough to withstand the pressures of officially sponsored liberalization and bank deregulation sweeping the major financial centers.

Incentives, apart from the official tone of liberal banking prevailing in Luxembourg, also embrace the policies individual grand duchy banks pursue to win and maintain customer confidence in the attractions of using Luxembourg for placement and funding purposes.

For example, the growth of the European Currency Unit and the Luxembourg franc into major investment vehicles over the past two years has been the result of a concerted effort by

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Scoring Top Points in Secrecy Debate

(Continued From Page 9)

cret bank records in a civil law suit.

Similarities outweigh differences. Both codes are the only ones in Europe that provide punishment by prison and fine to any bank officer or employee who knowingly divulges information about a deposit. In Switzerland, the penalty is six months prison and a fine of 50,000 Swiss francs for a knowing breach and 30,000 for an inadvertent disclosure. In Luxembourg, it is eight days to six months in prison and a fine up to the equivalent of 50,000 Swiss francs. In both countries, the offended depositor may also seek damages in a civil suit against the offending bank employees.

In commercial disputes under civil law, whether conducted in Luxembourg or abroad, the Luxembourg banks are under no obligation to provide information on clients except in cases of bankruptcy and attachment. In Switzerland, much the same procedures apply, although different cantons have varying obligations for providing information in civil suits. In matters of death and inheritance, the Luxembourg banks are not compelled to disclose the value of foreign-held accounts to survivors. In Switzerland, by comparison, the banks are compelled to give an accounting to the lawful heirs.

Criminal procedure is almost identical in both countries. If the depositor has been charged with a felony, either in a local or foreign court, the banks can be commanded to lift all secrecy from the account of the accused. In the event of proceedings in foreign countries, however, both Swiss and Luxembourgers reserve the right to determine whether the proceedings stem from a truly criminal act or whether political motivations are decisive. In the latter event, both countries reserve the right to refuse to allow their banks to cooperate.

In tax matters, Luxembourger and Swiss practices part company. In principle, both countries seek to resist the intrusions of foreign tax authorities and recognize only serious tax fraud, and not mere tax evasion, as a punishable offense. However, while Luxembourg remains undisturbed by pressures from foreign tax authorities, Switzerland for years was subjected to harsh demands by major neighbors and the United States to bar its access to its banks to tax evaders and purveyors of flight capital. These pressures reached such crescendos with the United States in the late 1970s that Washington authorities were threatening to close down Swiss banking operations in the United States unless the Swiss cooperated with U.S. tax authorities.

Faced with such penalties, the Swiss prudently decided to negotiate a treaty on mutual assistance in criminal matters with the United States. The pact went into effect in 1977. Since then, the Swiss have taken a whole range of legal actions that, in effect, authorize Swiss banks to cooperate with foreign banking and legal authorities in combatting the misuse of Swiss banking by criminal elements abroad. One part of this movement has been an agreement among Swiss banks to refrain from accepting money either from a depositor or a fiduciary agent unless the bank can determine the true origins of the funds and the actual beneficiary of the deposited money.

Swiss bankers contend that these measures by no means represent a dismantlement of Swiss banking secrecy. Instead, they argue, such measures are a guarantee that Swiss secrecy will remain strong and durable. Their explanation is that if Swiss banks allow their rules on confidentiality to be used by criminals and tax fraud perpetrators, both the Swiss populace and the international banking community will become so distrustful and enraged at Swiss banks that they would lose their position of trust both at home and abroad.

And in that case, what will be the value of banking secrecy? The answer, of course, is none. Although Swiss bankers are far too discrete to allow themselves to be quoted on the issue of Luxembourg's claims, they do say, off the record, that Luxembourg can indulge in the luxury of crowing about its secrecy only because it is a relatively small financial center that has not come under the same stresses as Switzerland.

Furthermore, they point out that the crucial difference between Swiss and Luxembourger banking secrecy law is that Luxembourg law has not yet been challenged. If put to severe tests, the Swiss suggest, the Luxembourgers might also be compelled to come to compromises.

A SPECIAL REPORT ON LUXEMBOURG

Electronic Trading Highlights Wide Diversification of Funds

LUXEMBOURG — Spurred by deregulation and competition in the world's major financial markets, traders and dealers operating out of Luxembourg are not alone in learning that earning a living by lightning reflexes and razor-sharp wits no longer suffices to stay one step ahead.

Dealing in different time zones, swapping in and out of currencies at the drop of a dime, covering forwards and hedging spots, concocting currency cocktails and fixing bond prices at a moment's notice for the right customer at the right time — dealers are the lifeblood of banks.

But they also need arteries along which to flow. The Luxembourg market, like its counterparts in New York, London, Zurich and Frankfurt, has become aware of the need for electronic and computerized trading systems to act as conduits for the efficient channeling of funds.

Euroclear and Cedel, the two international clearing houses for Eurobond trading, are well and long established in the art of using high-powered centralized computers to process clients' transactions and communicate directly with trading rooms.

Now individual banks are gearing their technical resources increasingly to the concept of an integrated electronic trading room, where information systems, communication modules, data flow and trading instruments combine in a single package for the dealers.

Skandinaviska Enskilda Banken (Luxembourg), the Luxembourg subsidiary of the Swedish parent, is the latest in a line of Luxembourg-based banks to introduce a fully computerized in-house system to combine all its electronic resources at the disposal of its trading operations.

As well as linking access to a continuous flow of instantly updated information and news from such outlets as Reuters and Telerate, the two computers at Skandinaviska calculate, process and amend in split seconds complex arbitrage, spot and forward quotations of all major trading currencies and their counterparts on the Euromarkets.

The Luxembourg system is also linked to the major computer network at Skandinaviska's Stockholm headquarters, providing instant communication with its central trading room.

"We're happy with the system as it provides us with a fast and efficient means to best service our international clients," said Gunnar Olsson, managing director of Skandinaviska's Luxembourg operations.

Although the computerized systems vary from bank to bank in Luxembourg, they have in common the aim to improve, diversify and streamline their trading operations.

Speed, refinement and diversification are the essential elements in the picture making up Luxembourg's rapidly changing trading patterns.

Bursting out of its traditional mold as a purely Euromarket center, where commercial banks mainly went about the business of arranging syndicated credits, Eurobonds and traditional interbank transactions, Luxembourg has sought to diversify more into the fields of private banking.

The Luxembourg market has become aware of the need for computerized trading systems to act as conduits for the efficient channeling of funds.

With this development, a shift in emphasis has also taken place on the trading-room floor. Instead of focusing resources primarily on interbank market transactions, acting on behalf of large corporate clients, sovereign borrowers and institutional investors, banks are also offering trading services for the individual clients.

A multitude of trading instruments are available for Luxembourg banks — and indirectly their clients — to choose from.

The spectrum ranges from orthodox currency-related vehicles such as floating-rate Eurodollars, European Currency Unit, certificates of deposit and Deutschemark-denominated Eurobonds, to more complex deals on the commodities and precious-metals markets, as well as in the options and financial futures areas.

As one dealer at a West German bank in Luxembourg commented: "If it moves, trade it."

The escalation of the number of trading vehicles has opened up new financial possibilities, often blurring the traditional contours of banking and merging to entice the borrower and lender to take or place funds.

"While the benefits to the individual customer are numerous, it has become a difficult task simply to choose from one menu of trading delicacies now on offer," a Luxembourg banker said.

One of the leading players in the Luxembourg trading arena is Banque Internationale à Luxembourg. Now in its 129th year of operations, it has built up an established track record in all the principal markets on tap in Luxembourg.

It participated as agent for the first Eurobond issue, a 5.5-percent, $15-million bond issue for Italy's Autostrade, which launched the Eurobond market in 1963, now grown to reach a record new issue volume of $77.1 billion equivalent at the end of 1984.

It has also been prominent in the emerging ECU and Luxembourg-franc markets, with the bank's general manager, Jean Krier, noting that one of Banque Internationale's prime aims was to increase the proportion of the bank's management, either as lead manager or co-manager, in the Eurobond sector, particularly in the ECU market.

Commenting on the Eurobond market in 1984, the bank's annual report for last year stated: "As in the two preceding years, we obtained our best results in the ECU sector."

"Luxembourg banks have participated more and more actively in the arrangement, and in the management, of ECU issues," Mr. Krier noted in a recent interview, citing as an example Banque Internationale's lead management of a 35-million-ECU eight-year issue at 9 percent for the international finance arm of Philips, the Dutch electronics firm. This was the first of its kind for a large European industrial company.

On the Luxembourg-franc bond market, Banque Internationale managed five public issues and, in addition, was joint lead manager for five other issues, as well as arranging three private placements.

The list of Euroissues in which Banque Internationale held a market increased to 208 in 1984, comprising 118 issues in dollars and 90 issues in ECUs.

It, together with the other domestic Luxembourg banks, also increased its activity in the secondary markets of the Eurobond sector, engaging in the underwriting and placement of these bonds as well as trading of these securities on the secondary market.

The Luxembourg stock market also provides a forum for trading in Luxembourg. In 1984, it had hitherto unmatched intense activity, in particular on the primary market. According to official figures, the number of admitted quotations reached 519 last year, compared with 351 in 1983, including 469 loans, 36 investment funds and 14 stocks.

Trading volume grew by a total 18 percent in 1984, with fixed-return securities up 17.3 percent on 1983 levels, while turnover in stocks, investment funds and share certificates rose 20.7 percent.

The official Luxembourg stock-market quotation comprised 2,712 securities at the end of 1984, compared with 2,070 at the end of 1983, representing more than 1,000 issuers from 70 countries, and the figure of 3,000 listings in securities is expected to be exceeded during this year, share analysts forecast.

New Luxembourg-franc bond issues admitted for quotation last year totaled 14, amounting to 11.2 billion francs, the highest total ever.

Trading in Luxembourg, then, has broadened and deepened its range of activities, particularly as the diversification into private banking has grown to open up new horizons in bank strategy and management.

Bonds, for example, can either be viewed as a long-term investment, resting in the books of banks on behalf of individual clients, or they can be placed in the trading portfolio of the individual bank, trading on a regular basis on the secondary markets available in Luxembourg.

Portfolio management, covering anything from short-term deposits, certificates of deposit, corporate and government fixed-interest bonds to floating-rate notes, convertible bonds and common stock, can be geared to meet the individual customer's needs by trading the investments on all the major stock exchanges, including that of Luxembourg.

By switching the funds generated by the investments from one market to the other, not only is the rate of return assured for the investor in most cases, but also the bank transacting the trading stands to gain in commission and fees.

— MICHAEL METCALFE

Jean-Pierre Pouillard

Promenade along the capital's ramparts.

The Duchy Makes Lëtzebuergesch Official

(Continued From Page 9)

Digest, and a junior-year-abroad program run by Miami University at Oxford, Ohio. And there is a "proletarian novelist," Guy Revening, according to a promotor of Luxembourg culture and language, Jul Christophery, the National Library director. About 250 books are published each year in the grand duchy (not counting EC paperwork) and about 15 or 16 each year are in Lëtzebuergesch.

One of Mr. Christophery's own articles, republished in 1978 in his collection of essays, "The Luxembourgers in Their Own Words," attempted to show the affinities between Lëtzebuergesch and English, which occur often where a corresponding New High German word does not exist. Cap, ham, plow, oats and cabbage head, claw and wick (more or less) sound the same in Lëtzebuergesch.

Other English borrowings include Gillette (for a nonelectric shaver) and buggy (for a railroad car). Yet, as Mr. Christophery admits, these similarities are not proof of a common linguistic heritage so much as accidents.

In areas formely ruled by the grand duchy, and stripped away by avaricious neighbors (like Louis XIV or Leopold I of Belgium), dialects related to Lëtzebuergesch are still spoken in the countryside today. In Thionville, France, a group of parents have chosen to educate their children in something they call *francique*, which they are the first to admit is nothing but Lëtzebuergesch. Half of the Belgian province of Luxembourg still contains people who speak Lëtzebuergesch.

The German natives of Rhineland-Westfalia, to a point somewhere to the east of Bitburg, also speak a variant of Lëtzebuergesch. Had President Ronald Reagan and Chancellor Helmut Kohl but known, they could have opted to avoid visiting Bitsburg's now-notorious cemetery for fear, not of SS graves, but of offending Luxembourg irredentists.

To quote the Lëtzebuergesch epic, "Renert," by Michel Rodange (published in 1872), most Luxembourgers would not want to trouble their neighbors:

Blous dat, wat brengt en Notzen,
dat hale mir fir weis;
Fransous och beim Champagner,
beim Rhäinwäin si mer Preis.

Or, in Mr. Christophery's translation:

Only that which increases our stock
We do think wise and humane:
Although French when sipping champagne,
Germans we are when tasting hock.

— VIVIAN LEWIS

The Incentive System: More Is to Come

(Continued From Previous Page)

Luxembourg-based banks to actively promote the two currencies in the field of private banking.

The European Currency Unit has rapidly emerged as much more than a mere artificial accounting unit, finding its way into a thriving interbank market made up of about 200 commercial banks and volume estimated at around 10 billion ECUs by the end of 1984. Moreover, short-, medium- and long-term ECU loan markets have sprung up.

Public issues of ECU-denominated Eurobonds have swelled from a total issue volume of $207.7 million equivalent in 1981 to more than $2 billion issued in 1984.

"The background to all this is that to develop a new investment instrument a lot depends on the policy that is followed by the banks and that is applied to the market," Mr. Krier said.

"If, for instance, the banks promote with their customers a formula like the ECU, then we have noticed from our own experience that there is a very large potential growth, and Luxembourg banks, in particular, over the years have considerably promoted the ECU with their customers, with growing and considerable success," the banker added.

The incentive on the part of Luxembourg banks to promote the ECU and the Luxembourg franc has found tangible expression in the growing numbers of fees and commissions flowing in from private and institutional investors in Switzerland, West Germany and France, whereas past investor interest was largely confined to the Benelux area.

As part of its incentive policy, Luxembourg as a financial center has played a major role in creating and fostering new monetary units running parallel to national currencies, with the aim of reducing the possible repercussions that the movement in the value of a single national currency could have on the well-being of the Eurobond market overall.

Such composite currencies included Special Drawing Rights, European Composite Units and European Units of Account, all of which found a specialized niche but failed to gain the prominence that ECUs have won in European investors' portfolios.

Another incentive to trading in these basket currencies is that almost all the issues in one or another of these units are quoted on the Luxembourg stock market, enhancing its role as an exchange for internationally traded securities.

With the intention of providing a further inducement to the diversification of the ECU market, Banque Internationale à Luxembourg in February last year launched certificates of deposit with relatively low-issue unit values to attract private customers.

"These certificates were made as flexible as possible, our bank having undertaken on the one hand to buy these securities at any time at the day's rate and on the other hand to offer the possibility of redemption at due date for installments due before final maturity," Banque Internationale said in its 1984 annual report.

Moreover, this year the bank will offer its clients the first travelers' checks in ECUs. This, together with the fact that the unit is now officially quoted in Paris, Brussels, Rome, Milan and Copenhagen, suggests that the ECU is rapidly assuming the role of a genuine and widely used European currency.

In the other areas of incentives, a number of financial arrangements await the investor. The presence of portfolio management resources, covering anything from short-term deposits, certificates of deposit, corporate and government fixed-rate bonds to floating rate notes, convertible bonds and common stock, is viewed among bankers as an increasingly popular inducement to draw private investors to the Luxembourg market.

"The development of portfolio management, as well as the brisk growth in investment funds, reflect another logical move by banks toward diversification into other banking areas and can only be welcomed as providing another incentive to attract investors to Luxembourg," said Pierre Jaans, director general of the supervisory Luxembourg Monetary Institute, in a recent interview.

On the official side, the strengthening of bank secrecy laws enacted in 1981, the removal of value-added tax on gold trading and the absence of a withholding tax on nonresident deposits, have also provided important incentives to draw funds.

Moreover, legislation permitting banks to carry fiduciary deposits from large customers on an off-balance-sheet basis serves as an incentive for Luxembourg banks to build up their business in this field and compete with Swiss counterparts, which have had massive fiduciary deposit inflows swell their off-balance- sheet transactions in recent years.

Interest and currency swaps, which allow borrowers the flexibility of raising fixed-rate funds to swap debt with other borrowers raising floating rate money, often involving several currencies and interest rate permutations, as yet have not proved a specialty of the Luxembourg market.

However, bankers added that these swaps and the burgeoning market in Euronote issuance facilities should prove further incentives assuring Luxembourg's future as a major financial market place.

— MICHAEL METCALFE

Telecommunications station at Luxembourg-Kirchberg.

The Crown Prince Is Also A 'Financial Ambassador'

Prince Henri of Luxembourg

LUXEMBOURG — Prince Henri, crown prince of Luxembourg and duke of Nassau, is also the grand duchy's financial ambassador.

The prince, as chairman of the 12-member Board of Economic Development for the past two years, promotes Luxembourg's business and banking attractions abroad.

"It is difficult for a small country like ours because we are small and can't be present everywhere, so we need the help of local friends," Prince Henri said in an interview.

He said Luxembourg was "aiming mainly at two countries, the United States and Japan." He recently visited the United States, Japan and Sweden. The board has offices in New York and Tokyo.

"The second U.S. office will be in California, because California is a place where business is being done," he said. "We haven't decided yet if it will be in Los Angeles or San Francisco."

The board aims to bring new diversified investment to Luxembourg. "We are interested in financial investment," the prince said. "Luxembourg is known as a financial center. But, we can't be totally dependent on finance, just as before the 1970's we were totally dependent on steel. So, we are trying to diversify, in attracting industries also."

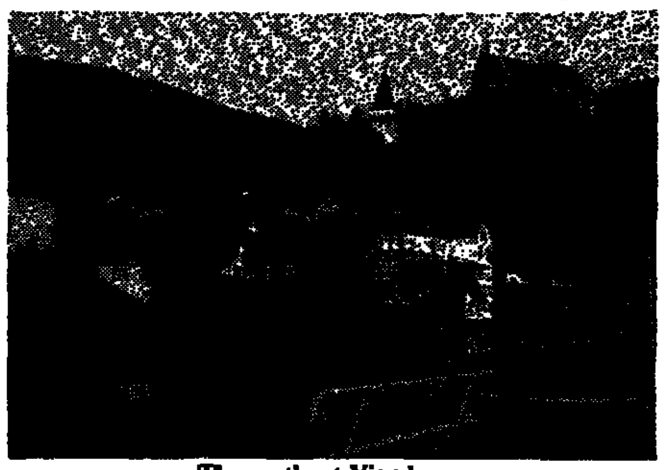
"We are trying to attract smaller high-tech and even low-tech industries. . . We are seeking electronics and biotechnology companies both in the United States and Japan."

The prince, who is 30, graduated with honors in political science and economics from the University of Geneva.

"There is nothing unusual about my role because many other monarchies are doing the same thing," he said. "I am thinking of Albert of Belgium or Henrik of Denmark. It is normal that I should play a more active role in promoting my country. And being royal opens doors. After all, people are interested in seeing what a prince is like."

— VIVIAN LEWIS

Time Off: Vianden's Window on History



The castle at Vianden.

VIANDEN — "Before long, the whole of Europe will visit Vianden, this jewel set in its splendid scenery, characterized by two, both comforting and magnificent elements: the sinister ruins of its fortress and its cheerful breed of men," Victor Hugo wrote in 1871.

An international banker visiting Luxembourg, with a few hours' respite will find it easy to hire a car and make the 30-kilometer (19.6-mile) trip to Vianden.

The proximity of this little town, made famous by Hugo, who was exiled there, lends itself readily to the kind of excursion that a tight-scheduled business trip could allow.

The house where Hugo lived from June 8 to August 22 still stands, housing the poet's furniture, letters, documents and sketches of that time.

Even if this town of 1,500 inhabitants cannot boast the whole of Europe on its doorstep, it has its fair share of visitors, proving one of the biggest tourist attractions in the grand duchy.

Nestling on a bend in the river Our, looking out on valley slopes speckled with vacation cottages toward the border with West Germany, Vianden rests comfortably in the lap of the forested Ardennes-Eifel region.

Despite the small electronics companies and a huge hydroelectric power station complex on its outskirts, the 1,000-year-old town's largest single source of income is tourism.

The lack of large-scale industrial development has preserved the charm of the site, studded with medieval houses and churches in hues of brown and yellow.

Spring is a good time to stroll through the quiet streets around the 10th-century castle, perched on an outcrop of rock overlooking the town.

Below the fortress is the Squat Tower, its crumbling battlements dating to the 12th century, and below that winds the Grand'Rue, the main artery of Vianden's historic old town, lined by a crooked row of houses once owned by the local nobility.

The town hall, dating from 1469, is one of the oldest of these houses still standing, while another houses Vianden Museum, displaying furniture, utensils, tools, ornate chimney-pieces cast in the 16th and 17th centuries.

The Grand'Rue also has an apothecary shop of 1475, lined with stone mortars and pestles, scales, burners and bellows used to concoct Medieval brews.

On this street there is also the Church of the Holy Trinity, which, in the early Gothic style of 1248, with its wooden altar carved in 1758 by three local artisans.

Other attractions in the old town include a former plague chapel now used as a sacristy and the Church of Saint Nicholas with its fine baroque altar and cross-ribbed vault of late Gothic design.

A reminder of less peaceful times is the town's new bridge across the Our, built in 1949 to replace the old stone bridge blown up by German troops as they retreated from General George S. Patton's U.S. Third Army in the closing stages of World War II.

Now, 40 years later, small groups of American and German veterans strolled through the streets of Vianden, reliving past campaigns, defeats and victories over krugs of local beer and beakers of ice-cream.

But it is the castle at Vianden that overshadows all. The largest and best-restored of Luxembourg's myriad medieval fortresses, the stronghold's oldest parts date to the 10th century.

During its 1,000-year history, the castle has witnessed wars, fires and earthquakes, exchanging hands numerous times until 1820, when its then owner, William I, King of the Netherlands and Grand Duke of Luxembourg, put it up for public auction, seven years later to be classified as a ruin.

It was ceded to the state by the present Grand Duke Jean in 1978, and systematic reconstruction has restored a large measure of the castle's former austere splendor, while bringing it up to date with facilities such as a concert hall, conference center and exhibition area.

— MICHAEL METCALFE

Taking One's Time With the Local Cuisine

LUXEMBOURG — A Luxembourg proverb notes that "Good cuisine is quickly eaten up, a bad one even more rapidly." With their food, the Luxemburgers know how to take their time.

At the confluence of two cultures, French and German, Luxembourg cuisine combines the finesse of French cooking with the ample portions of German fare.

Visiting businessmen and international bankers coming to Luxembourg like to frequent three of the grand duchy's main restaurants — Saint Michel, Clairefontaine and Au Gourmet.

All of them share the attraction of good wine cellars, collected over several decades, and a cuisine that hold its own with some of the best in neighboring France, Belgium and Germany.

The ambience at these restaurants, especially at lunchtime, is conducive to bankers' banter; the surroundings are tranquil but the service is speedy, efficient and unobtrusive. Although a large proportion of their clientele is made up of bankers in transit, the restaurants are also frequented by resident Luxembourgers and the large international community from the multinational organizations that are based there.

The menu, particularly those catering to the lunchtime business crowd, is light but substantial, with heavy sauces and filling dishes kept to a minimum.

According to Gault Millau, the magazine on French cuisine, Luxembourg fare is "sturdy, honorable and just a little on the conventional side."

If there are national dishes of Luxembourg, just as snails and coq au vin are associated with France, steak and kidney pie with Britain and schnitzel with Germany, then a good place to find them are at Restaurant du Commerce in the old section of the city of Luxembourg.

Located on the leafy Place d'Armes, where brass bands play and Luxemburgers promenade, the restaurant is full to overflowing at lunchtime. Smoke and the smell of pork cooking hang heavy, while sturdy and burly locals dine.

The portions are huge and leave little room for deliciously light pastries and quetsch tarts. Specialties of the house are pork dishes, certainly the national meat of the grand duchy.

Official statistics show that the Luxembourger consumes yearly an average of 7.5 kilos (16.5 pounds) of butter, 85 liters (22.1 gallons) of milk, 57 kilos of bread, 29.2 kilos of beef, 6 kilos of veal, 42.5 kilos of pork, 129 liters of beer and 41.3 liters of wine.

One of the country's fish specialties is truite farcie Grand-Duchesse, stuffed trout in a wine cream sauce, served with a dry Luxembourg white wine, such as a 1982 Wormeldange Nussbaum riesling.

Saint-Michel, run by Pierrick and Lysiane Guillou, carries the distinction of being the only Luxembourg restaurant awarded two stars in the French Michelin guides, with no one Luxembourg eating place accoladed the maximum three stars.

Located on a bend in the narrow, winding Rue de l'Eau, Saint-Michel offers excellent turbot and salmon more in the tradition of French cuisine than that of Luxembourg fare.

The same applies to Margot and Tony Tintinger's Clairefontaine, which opened last November in a restored and refurbished former merchant's house facing Notre-Dame Cathedral. Their fish specialities include trout and sole.

The third establishment, run by Mrs. Jules Werner, is a more traditional restaurant in a house dating to 1673, located just behind the Place d'Armes.

Furnished with dark oak paneling and plush claret-red velvet, Au Gourmet over the past 40 years has offered its clients a sedate setting for a seasoned blend of domestic and French-inspired dishes, ranging from local jellied pigs trotters to Burgundy snails, from truite aux herbes fraiches to l'entrecote au Roquefort.

The trout, clean and white-fleshed, is served on a bed of green herbs, including parsley and chervil.

A crisp white local wine, either of the Elbling or Rivaner variety, provides a natural complement to the dish.

According to Pol Tousch's cookbook, "Le Livre de la Cuisine Luxembourgeoise," published in French and German by Verlag Wolfgang Hoelker in 1980, pike is also ascribed a worthy place in Luxembourg cooking.

Tradition has it that in the first half of the 18th century, Grégoire Schouppe, Abbot of Echternach on the Luxo-German border, dispatched two of his monks on a spying mission to the monastery at Orval, which had gained a name for superb fish recipes, according to Mr. Tousch's book.

Pike was also used ground up and added to warm beer to cure fever among the sick, the author adds.

If all this does not strike your fancy, Luxembourg also offers red meat, including jugged hare during the hunting season, and calf's liver dumplings served with sauerkraut and potatoes.

— MICHAEL METCALFE

Banking: In Search of Brand Image?

(Continued From Page 9)

data from the Institut Monétaire Luxembourgeois.

Even the European currency unit, an instrument invented in Luxembourg, is beginning to outgrow this marketplace. Last month, an institution not even present in Luxembourg, Crédit Suisse-First Boston, lead managed its first ECU bond, 200 million for New Zealand. Paribas placed an ECU issue for an Australian bank with Japanese investors through its Hong Kong office. Crédit Suisse's London branch, the fastest-growing ECU dealer, has lured away the chief ECU bond dealer of the leading Luxembourg ECU house, Leon Kirps of Kredietbank Luxembourg. In 1985, Luxembourg will not match its 1984 success with the ECU — its bank being in the syndication of every issue in the composite currency, its stock market listing every single new public issue.

To make up for its sinking share of Eurobond business, the authorities are trying to make this a fund-management center. Under a two-year-old law, there are 132 Luxembourg mutual funds, with just under 400 billion Luxembourg francs under management. Luxembourg has twice as much mutual funds money now as two years ago, before the law was passed — and mutual funds had to be incorporated under the old holding company law.

Yet, the largest Luxembourg funds are losing place to competition from their home market. The dominant mutual funds here are Italian, and under a new law, Italian investors can buy mutual shares at home, something they are doing in overwhelming numbers. According to Sole 24 Ore, a Milan publication, Italians had already invested 1.165 trillion lire in 25 newly established domestic mutual funds by the close of 1984. Since then, through the end of April, the Italian investment in domestic mutual funds has increased fivefold in four months, to top 6.663 trillion lire.

The effect has been to diminish the amounts available from Italy for investment in Luxembourg funds. The leading mutual fund group from Italy in Luxembourg, operated by Istituto Mobiliare Italiano, managers of Fonditalia and Interfund, alone accounts for half the total invested in Luxembourg mutual funds, $1.2 billion at the close of 1984. Since then, with the rush to invest in domestic funds, the Mobiliare's Luxembourg mutual funds have actually had a decline in their volume of managed funds.

But for the Mobiliare's funds, as for most other "money managers" in Luxembourg what is happening in the grand duchy is mostly administration. Research and decisions on where to invest money are done at home or in a third country with the investment analysts that Luxembourg lacks.

Yet, while active portfolio managers are still thin on the ground in Luxembourg, there are some signs that some of the personalities you expect in an international banking center are coming to the mini-country. Although regulation is still handled with a light touch by the Institut Monétaire Luxembourgeois — a sort of combination of the U.S. Federal Reserve, the Comptroller of the Currency and the Securities Exchange Commission — that body is growing.

Now that Luxembourg has hired opinion pollsters, their findings are to result in a public-relations promotion campaign by the Bankers' Association to try to make Luxembourg better known and to improve its image.

All eight of the leading international auditing firms are now in Luxembourg. Native-born lawyers these days are turning out Europrospectuses as obscure as those written by English or American-trained lawyers. And as the banking community grows denser, Luxembourg is converting more residential apartments and townhouses to banks and offices — and developing a nasty international-style real estate mentality to match.

German Banking Presence Is Expected to Continue

LUXEMBOURG — The governor of the Bundesbank, the West German central bank, used the occasion of the 300th anniversary of the Berlin Stock Exchange to squelch rumors that he would allow Germans to have U.S.-type International Banking Facilities, similar to offshore banking units, in their own country.

The May 7 remarks of Karl Otto Pöhl led to a Frankfurter Allgemeine Zeitung headline summing up bankers' disappointment: "*Luxembourg ja, Frankfurt nein.*" Disregarding lobbying by German bankers, Mr. Pöhl has ruled out offshore banking in Frankfurt, as well as Berlin.

"Innovation in financial markets based on foreign models must be ended wherever it could lead to weakening of the effectiveness of monetary policy, which in my view would happen were we to give into the pressure for creating a 'free trade zone' for banking," Mr. Pöhl said. "We cannot lightly undertake liberalization that risks endangering our most vital monetary policy instruments."

Germany, therefore, is not going to allow domestic international banking centers such as exist in New York or London.

Among those disappointed are advocates of a homecoming of the German banks from the Euromarkets like Walter Siepp, head of Commerzbank. And Mr. Pöhl turned down the arguments by Rainer Schäffer, of Dresdner Bank, who wrote an article concluding that "a free zone for foreign money on Federal Republic soil has only advantages and no disadvantages."

As a result, the representatives of the 28 German banks in Luxembourg have unpacked their baggage. Real-estate agents in the banking belt in the Tannus mountains, outside of Frankfurt, will not be able to raise their prices. Twenty years of tradition for German banking in Luxembourg will not end.

This is a relief for Luxembourg since German banks dominate its banking sector, both in numbers and volume, and account for about half the aggregate balance sheet totals. The mark is the currency of nearly 40 percent of all bank claims in Luxembourg, whereas it is only 8 percent of the business of banks worldwide reporting to the Basel-based Bank of International Settlements.

Most German banks in Luxembourg do wholesale banking, although like other banks, they are increasing their services to retail customers. In their Euromarket business, German banks are taking up notions and vehicles and instruments developed in other Eurocenters.

In fact, Mr. Pöhl's negativism about offshore banking in Germany is partly a reflection of his dislike of these new instruments. He has stated reservations about variable rate notes, swaps, zero-coupon bonds and other tactics for banks to find a way of getting their interest-rate risk off their balance sheets. His distaste, he has said, is based on potential interference with monetary policy — and apparently on prudence. But to the extent that risky instruments are confined to Luxembourg, while subject to German consolidation and banking ratios, Mr. Pöhl may tolerate them.

Leaving German banks the offshore option may be a tactic to prevent "contamination" of the German system by "techniques and operations of a different psychology," said Volker Burghagen, co-managing director of Dresdner Bank in Luxembourg.

"The Bundesbank has not yet reacted to undrawn lines and liquidity guarantees" and other off-sheet financing, according to Ekkehard Storck of Deutsche Bank. "It is not clear what percentage you should include in your capital ratio for consolidation" under either Luxembourg or German rules, he added. "My concern is not Jaans [head of the Institut Monétaire Luxembourgeoise]; the first danger is Pöhl."

Jean-Pierre Pouillard

A street in central Luxembourg.

But the most important forbidden games German bankers play in Luxembourg is dealing in the European Currency Unit. "German interest is actually stimulated because it is verboten," according to Wolfgang Spehr, managing director of the Westdeutsche Landesbank subsidiary. "The more the Bundesbank talks down the ECU, the more German curiosity increases."

Yet the excitement about the possible repatriation of German banks to their homeland is not without importance in the country where they are staying. "Talk about an International Banking Facility in Germany, which I don't expect to happen, has made the tax authorities here think," Mr. Burghagen said. "It will mean no tax pressure on loan provisions."

Mr. Storck, whose Deutsche Bank pioneered the no-profit tactic in 1979-1980, thinks all the rumors have helped the authorities in Luxembourg to become "pragmatic." While admitting that Deutsche Bank is provisioning champion in Luxembourg, he insisted that "we would follow the same policy in Germany."

While German banks have used provisions to cut corporate profits and taxes, they have not done everything they might have to take advantage of all Luxembourg tax loopholes, in the view of one German banker, Jürgen Förster of Warburg, Brinckmann. The rule allows banks to switch to their home currency from Luxembourg francs without taxation of the paper profits from the switch. In his view, there is no risk that the German mark will ever fall against the Luxembourg franc, which is not the case for other currencies like the dollar. German banks that have been in the grand duchy 20 years could switch their accounting currency and turn paper profits into reserves or capital without taxes. But they have not all done so — the way Warburg, Brinckmann has.

Among the German banks still accounting in Luxembourg francs are Berliner Handels- und Frankfurter, Bank für Gemeinwirtschaft, Deutsche and Dresdner.

— VIVIAN LEWIS

Women Managers Leading Growth In Credit Sector

LUXEMBOURG — About 6 percent of Luxembourg's population, including foreigners, work in the credit sector, a rise of 50 percent from the levels of a decade ago. And leading this growth is the number of women managers.

Luxembourgeoise managers of credit institutions numbered only 10 a decade ago, and today there are 41; foreign women managers, who had five top jobs a decade ago, today number 43. (The total number of managers is 1,100, just under 700 of whom are foreigners.)

The woman with the highest number of people working under her is probably Kaye Wiltshire, vice president and general manager of Merrill Lynch Europe's branch in Luxembourg, with a staff of 16. A close second is Alix Morès, a Luxembourgeoise, who represents the Istituto Mobiliare Italiano mutual funds in Luxembourg, with a staff of nine.

Not surprisingly, both women are in investment banking, the fastest-growing part of the financial sector in Luxembourg, far outstripping the Eurobond market. The very name of Merrill Lynch makes one think of Wall Street investment, and the Milan firm's Luxembourg mutual funds are 40 percent to 50 percent invested in equities.

Unlike classic banking and the narrow world of bond-dealing, it is probably easier for women to operate in the less stuffy world of shares and options, of portfolio-building.

Miss Morès is, in fact, a super-administrator, moving funds in and out of currencies at dizzying speed. But she admits that Istituto Mobiliare Italiano in Luxembourg is a bit of a sham.

"Officially, all investments are done here, all telexes to buy and sell go from here," she said. "The head has to be in Luxembourg for tax reasons and the board of directors must meet here."

Miss Wiltshire also heads an operation that handles more administrative detail than risks. "Our analysts are in New York," she said. The Luxembourg Merrill office acts as a liaison with local banks, a transmission belt for ideas and orders between Luxembourg and the markets of the rest of the world.

"I came here with a specific job, to serve institutions with equity and bond sales," she explained. "The bulk of our business is in shares." She feels, too, that "the Luxembourg banks appreciate us. They are happy to have a local office with updated information."

A sign of the success of the Wiltshire approach has been the growth in the number of people working under her since she set the office up three years ago. Miss Withshire, who is British, was moved from the Merrill Brussels office to run a staff of five; today, there are 16 persons in the office and presumably a volume of business to justify the numbers. She feels that the trend to bigger volumes will continue. "The banks made their business with deposits, but as rates of interest fall, they will have to move into the equity's market," she said.

When Merrill opened its office, it was the only brokerage house in the grand duchy, apart from what Miss Wiltshire described as "a one-man office with a secretary linked to Bear Stearns." But since then, another American brokerage house, Prudential-Bache, has opened in the Old City and it recently got permission from the authorities to add a separately incorporated bank to its Luxembourg presence.

Miss Wiltshire has problems getting banks to use new instruments. "Getting a futures account past the directors of one or another of these banks may take months — but they are accepting options. They will buy OEX stock index puts."

An innovation in the Merrill Lynch office has been the amalgamation of the "back office" with sales. Because of problems with liaison between sales-support personnel and the actual brokers, the Merrill system tries to avoid a gap by having an administrative person sitting next to every sales person. Since here as elsewhere the former are usually women and the latter men, the office has a nicely integrated look.

— VIVIAN LEWIS

Nordic Banks Carve Eurobanking Niche

LUXEMBOURG — Nordic banks, which with 16 subsidiaries in Luxembourg form the second largest regional contingent after the West Germans, have proved adept in carving out a niche in the world of Eurobanking.

Rather than taking on larger and more powerful banks in the scramble to gain footholds in every aspect of the rapidly changing financial markets, banks from Denmark, Finland, Norway and Sweden have tailored their corporate policies to meet a specialized customer demand.

The strategies vary from bank to bank. In Luxembourg, they continue to go it alone, becoming increasingly well-equipped to reap the rewards from whatever custom-made business they have built up.

The factors behind the policy shift toward banking specialization are two-fold and go a long way toward explaining why the Nordic banks steadily have built up their presence in the grand duchy over the past decade.

Firstly, most Nordic countries during the 1970s prohibited domestic banks from extending foreign-currency loans to domestic corporations. With the growth of the Nordic region as an economic entity, fueled by oil riches in Norway's case and by Sweden's rapidly emerging multinationals, banks felt compelled to set up Luxembourg units to book such loans.

With the onset of bank deregulation and financial-market liberalization, which swept all the Nordic countries during the first half of the 1980s, the rules have mainly been removed, compelling the Luxembourg subsidiaries to look for other areas of business.

"The initial reasons why we came to Luxembourg no longer exist and there was a need to find new business," said Gunnar Olsson, managing director of Skandinaviska Enskilda Banken (Luxembourg), the Luxembourg subsidiary of the Swedish parent.

As long as no short-term commercial financing could come out of Sweden, Skandinaviska pursued its operations as a normal booking office, taking onto its books straightforward trade and corporate loans.

As the regulatory climate changed in Sweden, and as Swedish corporations, after two years of excellent profits, became highly liquid and no longer felt the need to press for new loans, Skandinaviska embarked on a new phase in its Luxembourg operations.

It fine-tuned its customer base to the Benelux area, which ranks fifth to sixth in terms of Swedish exports, concentrating its resources on servicing the financial needs of the 150 Swedish subsidiaries in the Netherlands and the 100 in Belgium.

"We can offer them medium-term credit lines, guarantees and short-term business on very competitive terms," Mr. Olsson noted.

In addition to this vital facet of Skandinaviska's operations, it has also come to gear its resources to the Luxembourg capital market, participating in a number of private placements and public bond issues denominated in Luxembourg francs.

Changes in Euromarket patterns, the move into new investment instruments and the progress made by the Luxembourg center at large to shift its emphasis on wholesale banking more toward private-customer business, have helped Nordic banks force the pace of their restructuring.

The Luxembourg unit, together with the European Currency Unit, are emerging as key currencies in the plethora of funding instruments that make up the Euromarket picture in the grand duchy.

Beside these aspects, Skandinaviska also engages in the traditional funding vehicles for its credit portfolio, such as foreign-exchange trading and arbitrage. "Our policy is to try to be the most professional bank in Swedish-related trade, and now that our network is built up, our aim is to service clients on an international basis," Mr. Olsson said.

The second factor behind the general policy shift toward banking specialization among Nordic banks in Luxembourg lies in the changing contours of banking in general, and in the grand duchy in particular.

Changes in Euromarket patterns, the move into new investment instruments and the progress made by the Luxembourg center at large to shift its emphasis on wholesale banking more toward private-customer business, have helped Nordic banks force the pace of their restructuring.

Of the five Nordic countries, Denmark and Norway have perhaps proved the most active in restructuring their Luxembourg affiliates to take advantage of the changing conditions in the international financial markets over the past two years.

Privatbanken, Denmark's oldest commercial bank, has found it more compelling than before to focus much of the activity of its Luxembourg subsidiary on servicing the financial needs of private clients, including large nimbers of Danish nonresidents living off their invested income.

With deposits of amounts as low as $4,000, assets placed with Privatbanken in Luxembourg, for example, are free from income tax, withholding tax, inheritance and wealth duties, capital-gains tax and other taxation.

The first Danish bank to start operations in Luxembourg, in 1976, Privatbanken also offers time deposits in most of the major currencies, investment in securities and precious metals as well as fiduciary transactions.

Danish banks' Luxembourg units are also finding the growing interest in mutual investment funds a lucrative source of income in the private banking field.

Provinsbanken International (Luxembourg), the wholly owned subsidiary of one of Denmark's largest banks, Den Danske Provinsbank, acts as custodian bank to the North Star investment fund group.

The Norwegian banks in Luxembourg have also found it profitable to branch out into private areas, although servicing corporate needs still remains an important part of their operations.

Christiania Bank of Norway was the first bank in the Nordic area to set up a wholly owned subsidiary in Luxembourg, opening up Christiania Bank Luxembourg in May 1973.

The three Norwegian banks in Luxembourg, Christiania, Den Norske Creditbank and Bergen Bank, were joined by a fourth earlier this year, when Fellesbanken (Union Bank of Norway) set up a wholly owned subsidiary.

Before it decided to strike out alone, Union Bank was a shareholder in the Luxembourg-based joint venture Banque Nordeurope, which offers Nordic and northern European clients a range of funding.

Finnish banks are also well represented in the grand duchy, including subsidiaries of Kansallis-Osake-Pankki and Union Bank of Finland, which primarily serve Finnish corporate clients expanding their activities overseas but which also participate actively in the Eurobond markets.

For the Swedish banks, including Skandinaviska, Svenska Handelsbanken and PKbanken, maintaining subsidiaries in Luxembourg means primarily meeting the financing requirements of Swedish companies and their network of subsidiaries abroad.

As Skandinaviska's Mr. Olsson noted, this can take the form of acting on behalf of Swedish companies as co-lead managers of private placements and public bond issues denominated in Luxembourg francs or European Currency Units, as well as trade financing and credit lines.

— MICHAEL METCALFE

A SPECIAL REPORT ON LUXEMBOURG

Duchy Seeks Wider European Broadcasting Role

By Amiel Kornel

LUXEMBOURG — Eager to expand its broadcasting activities, Luxembourg's media giant, the Compagnie Luxembourgeoise de Télédiffusion, or CLT, has proposed taking over the operation of France's national private television channel, Canal Plus.

The company's interest in Canal Plus, already widely rumored, was officially confirmed in recent interviews with top officials. The CLT's readiness to join forces with the struggling French pay-TV station underscores Luxembourg's wish to be a dominant force in European television broadcasting. Canal Plus's emitters will cover 90 percent of France by the end of the year, more than any of the three national television networks.

"We at the CLT believe we could be an operator of Canal Plus, a partner in the future," said Gust Graas, the managing director of the Compagnie Luxembourgeoise de Télédiffusion. "It could be a solution for us and for Canal Plus."

Canal Plus, launched by Havas Conseil last year, has had difficulty attracting subscribers. It is France's first privately owned television station.

Mr. Graas stressed that the proposal was "only a hypothesis" and that the Luxembourg company had not yet entered into negotiations with Canal Plus on the subject.

The development is the latest episode in Luxembourg's struggle to expand its television activities. Luxembourg wants to be a "European pole" of broadcasting, said Raymond Kirsch, director of the Treasury and president of the Société Nationale de Crédit et Investissement.

Concerned by the economy's reliance on international banking, officials are seeking to buttress the country's position as a communications center. "The banks could leave tomorrow," commented Lucien Thill, editor of the D'Letzeburger Land, a weekly newspaper. "So we have to find another market, and that market is the new media."

The Luxembourg economy needs "a second leg" to stand on, he said. The country's overreliance on the steel industry in the 1970s taught it about the need for economic diversification, he said.

The Compagnie Luxembourgeoise de Télédiffusion, most commonly known by its trade name, Radio-Tele-Luxembourg, or RTL, has earned considerable revenue for Luxembourg over the past 20 years. In 1984, the company earned 1.01 billion Luxembourg francs in profits and paid 1.78 billion Luxembourg francs directly to the state in the form of taxes and licensing fees. This figure, 2.4 percent of the government's revenues, makes the CLT Luxembourg's No. 1 taxpayer.

Earnings grew by 11.9 percent in 1984 to 10.78 billion Luxembourg francs. Annual profits regularly exceed 10 percent of revenue, a figure in line with the earnings ratio of the major U.S. media groups.

So far, most revenue has come from radio advertising. But recently RTL began aggressively developing its television broadcasting activities. Four million viewers watch programs daily in eastern France, Luxembourg and Belgium, according to company figures.

In late August, RTL Plus, operating in a joint venture with the German publishing group Bertelsmann, will begin transmitting via the European communications satellite to German households.

But to succeed in European television the CLT must rapidly extend its coverage further, officials said. "Television is the future," said Mr. Graas. He said that potential revenue from television is much greater than that offered by radio.

Concerned by the economy's reliance on international banking, officials are seeking to buttress the country's position as a communications center.

For political and economic reasons, France is the biggest and most important partner that the CLT must woo. French companies control a majority of CLT shares. The company's biggest shareholder is Havas Conseil, which is 51-percent owned by the French government. Matra, Schlumberger, and the Banque de Paris et Pays Bas, all French, also have important shares in CLT.

What is more, the French market could represent 1.5 billion francs of potential revenue, according to CLT officials. Due to a penury of audiovisual media in the past, French television advertising accounts for only 17.5 percent of advertising spending, compared to 30 percent in Britain and 42 percent in Italy. Money-making opportunities will abound as French projects to expand the country's communications infrastructure through cable and satellites develop.

The proposal of a rapprochement with Canal Plus was motivated largely by a recently released report on the French audiovisual industry. The so-called Bredin report, commissioned by the French government, proposes the creation of two national private television stations in France. Luxembourg officials fear that, faced with competitors for advertising revenue in France, they could not earn enough to make their television efforts profitable.

Apparently, the Canal Plus proposal could answer those concerns. "Canal Plus is the key to audiovisual broadcasting in France," said Mr. Graas.

There are good reasons why the French might be motivated to accept a partnership with CLT. Canal Plus is losing money. The Havas link in both companies assures continued French control of the station, while putting it into the hands of Europe's most successful broadcasters.

Yet complications remain. CLT does not want to get involved with a pay-TV station. Any agreement would have to transform Canal Plus into a direct competitor of the national state-owned television stations.

Officials also are wary of an arrangement that might leave most advertising revenue on the French side of the border.

"If the CLT becomes involved with Canal Plus," Mr. Kirsch said, "it must be careful not to block the future. There are schemes whereby revenue could be kept in France."

Negotiations with the French government, cut off in November, are expected to resume "very soon," Mr. Graas said.

The Canal Plus proposal is only the latest episode in Luxembourg's struggle to expand its television activities.

In 1981, the government of Pierre Werner shocked France and the CLT with the announcement of the GDL satellite project. The grand duchy began examining the feasibility of launching a satellite that would broadcast television directly to European homes equipped with receiving dishes. A concession to develop the project was granted to Coronet, a company run by an American, Clay Whitehead, which included U.S. companies as minority shareholders.

Fears of a "Yankee menace" rocked French officialdom, and the project was quickly dubbed the "Coca-Cola satellite." Political resistance took its toll and Coronet was closed down in February, ostensibly due to a lack of investors.

Luxembourg eventually was constrained to sign an agreement to lease two transponders on France's TDF1 satellite, scheduled for launch in July 1986. The agreement was viewed as crucial to the survival of the French satellite, which had come under attack due to its high cost.

But Luxembourg has not abandoned the idea of launching its own satellite. A new company, the Société Européene des Satellites, SES, was formed March 1 to explore the project's possibilities.

Some observers doubt that Luxembourg ever plans to follow through on the project. "I don't believe in a Luxembourg separate system," said Andrea Caruso, secretary general of Paris-based Eutelsat, the European telecommunications satellite organization that is run by the post offices. "It is one thing to talk about a satellite and it is another thing to implement it. The difference is about 350 million [French] francs."

"There are games being played," Mr. Caruso said. "Some are just paper satellites, maneuvering tools."

The GDL project, countered Corneille Bruck, president of the Caisse d'Epargne de l'Etat and president of SES, "was conceived from the beginning as a reality and it remains a reality."

"I can assure you formally," said Mr. Kirsch, who was the government liaison for Coronet, the earlier GDL version, "that it was not the conception of the government" to use the satellite as a bargaining tool in negotiations with the French.

Nevertheless, Mr. Bruck acknowledged that "as long as you have a Luxembourg project you are in a position of force. . . .Otherwise the others dictate the terms."

A view of the capital from its ramparts.

Street map shows the capital and surrounding areas.

A SPECIAL REPORT ON LUXEMBOURG

Statistics on Bank Earnings Reflect Slight Profit

LUXEMBOURG — Last winter, for the first time, Luxembourg authorities published statistics on global bank profits. The figures revealed what observers of the grand duchy have long suspected: if you confine your attention to the bottom line and the taxes paid on profit, banking in Luxembourg barely pays.

Luxembourg banks earned gross margins of just under 1 percent in 1984, according to a report published by the Institut Monétaire Luxembourgeois. The report was based on 1984 data and on results for 92 percent of all Luxembourg-based banks.

Net profits were 0.26 percent of their total footings — after provisions but before taxes — in 1983, the last year for which data were available. And, the before-taxes profitability of banks is sinking, and in 1983 amounted to half of the relative level of 1979 and one-third that of 1977. The corporate taxes that banks have been paying also has declined, and in 1983 amounted to 8.2 billion francs — a level unchanged for three years despite the volume increase in the same period.

For their parent banks and the tax collector, it would seem, the banking business in Luxembourg does not pay. Why then, do banks rush to set up in Luxembourg?

In fact, the low net profits of banking in Luxembourg do not have anything to do with poor banking margins or high intermediation costs. Rather, they reflect the banks' right under Luxembourg law to put away large sums of money for loan-loss provisions, thereby cutting both profits and taxes. These sums can be invested for a nice yield and are only taxable — without penalty — when the loans they cover finally are repaid.

Using provisions, banks cut taxable profits. The rate of net new provisions in 1983 was 52.6 billion, while net profits came to only 7.9 billion — all perfectly legal in the grand duchy. Among German banks, like Cie. Financière Luxembourg de la Deutsche Bank or Cie. Luxembourgeoise de Dresdner Bank, it has become something of a tradition to show no net profits at all by the simple device of putting all available profits into the provisions covering international credit risks.

One German banker, whose bank does pay some taxes in Luxembourg, said that some of his countrymen were overdoing things: "They say, as long as we are allowed to do so, why not make 100 percent provisions for Third World loans, or whatever we make let us put into reserves."

At least one non-German banker admitted that his institution had provisioned nearly two-thirds of its risky loans and will have to face a tax bite eventually. Once loans are totally covered by provisions, banks cannot add to the sums they have put away. For at least one other bank, the 100-percent-covered level will be reached in two years' time.

Of course, Luxembourg does get something out of all those banks operating on its hilltop, even if they do not pay corporate taxes. Personal income tax levels are high, and the indirect payback of bank business — ranging from employment to notoriety, from the balance of payments inflow to an increase in Luxembourg's clout in European Community politics — may make it all worthwhile. The publication of the institute's data on profits and taxes of banks has not resulted in popular clamor for a crackdown on banking tax evasions.

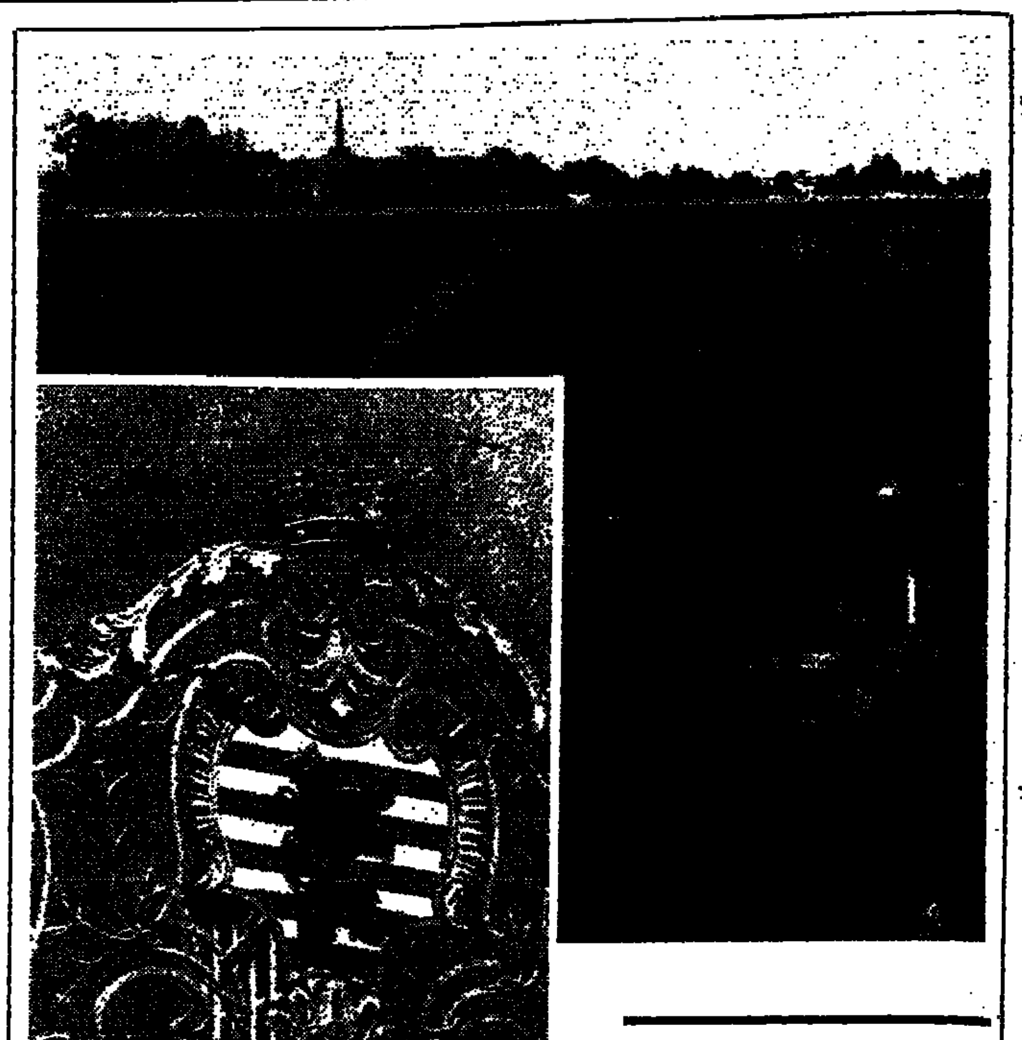
The tax break given banks in Luxembourg is not the only way the country's authorities make it attractive to investors. There is no withholding at source for interest on bonds issued, and no stamp duty on bonds or certificates of deposit. Mutual funds, which distribute or reinvest their earnings, can avoid having them taxed. Foreigners are not subject to grand duchy inheritance taxes. Gold trading is free of the value-added taxes applying in most of the rest of Europe. Establishing a holding company, a company or bank costs a minimum of 1 percent of the capital.

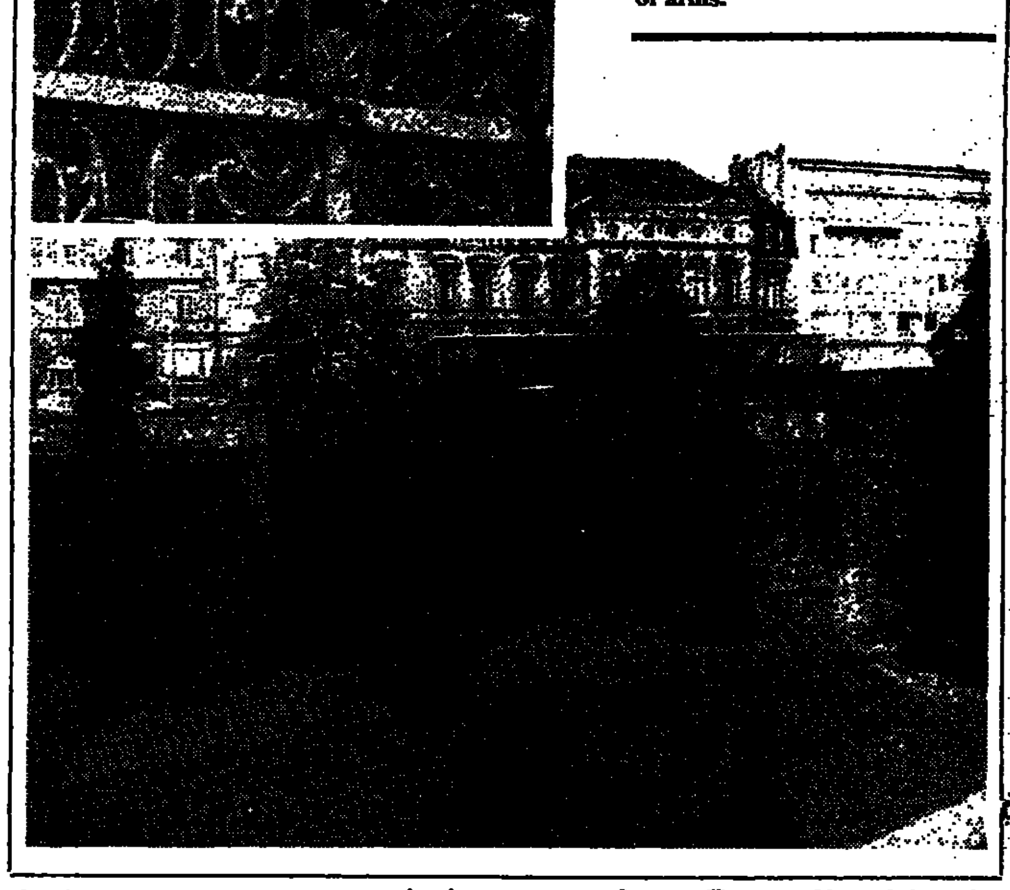
In addition to these already available tax breaks, banks are seeking even better treatment from the authorities. Another aspect is the high level — nearly 60 percent — of personal taxes in Luxembourg, and the 0.5-percent tax — a wealth tax — on the net worth of residents. Bankers also want taxes on dividends they receive from shareholdings to be eased. Currently, taxes are payable on dividends from companies not controlled at the 23-percent level; the bankers want the dividends to be tax exempt even on shareholdings of 10 to 25 percent. And a major battle is brewing over attempts by Luxembourg tax officials to take a bite from allowances for housing, education, moving expenses, or transportation paid to foreigners sent to Luxembourg by their banks or firms.

However, as even greedy tax authorities, in countries like the United States, Germany and France, are allowing bonds to be sold to non-residents with no withholding taxes payable on future interest payments — benefits similar to those offered by Luxembourg, tax officials in the grand duchy are looking at new breaks for banks, particularly when they reach 100 percent provision levels. Some concessions may be made in how banks provision for other risks: inflation, foreign exchange, fall in market value of securities.

What the Luxembourg authorities keep in mind is that although corporate tax receipts are only a small part of what this country gets out of being a banking center, operating costs and taxes together, nonetheless, cover 135 percent of the Luxembourg balance of payments deficit. Nearly 6 percent of all employed persons in the country work for a bank. Banks account for 14 percent of the country's gross national product. So why squabble about a few centimes in taxes?

— VIVIAN LEWIS





Photographs/Jean Pierre Pavillard

A modern bridge, above, contrasts with traditional architecture in the grand duchy's capital. At left, portal with coat of arms.

New Laws Put Insurers In Line With EC

By Chris Morrison

LONDON — Recent revisions to the Luxembourg insurance laws have brought the grand duchy into line with European Community requirements. They have also opened the prospect of adding international risk operations to its considerable financial services industry.

The law differentiates for the first time between the purely domestic insurance market and the world of offshore commercial insurance business.

But to date, despite numerous international inquiries, there is little sign that Luxembourg will turn into a major offshore insurance center to rival those of Bermuda and the Cayman Islands.

Few companies have set up shop in Luxembourg, and those that have come have been promoted mainly by the large Swedish insurance group, Skandia. Proponents, however, suggest that developments are yet to come.

On the domestic front, the new law, which was introduced in March last year, tidied up the country's commitments to a number of EC directives and permitted for the first time the operation of independent insurance brokers. Although the brokers' scope for action is severely restricted, their existence adds a new dimension to the local market. The local market previously had relied on the sales generated by an army of agents to individual insurance companies.

The country has about 40 authorized insurers. In 1983, they produced about 5.5 billion Luxembourg francs in premiums. But although the local market is small, it is not without its attractions, a point demonstrated by the purchase earlier this year of a one-third stake in the leading Luxembourg insurer, Le Foyer, by the giant U.K. insurance company, Guardian Royal Exchange.

The Luxembourg bid to attract international insurance business, meanwhile, comes at a time when it has suffered a major decline in its traditional steel industries and a tailing off in the banking sector. It has sought, therefore, to lay down a welcome mat — right in the heart of Europe — for the international insurance community.

The availability of such offshore locations is attractive to both large multinational companies and international insurance companies. Over the last decade, multinationals have sought to maximize returns by retaining many of their own risks rather than purchasing expensive insurance cover from outside insurance companies. To do this they have formed their own "captive" insurance companies and located them in areas with congenial tax requirements.

These offshore locations also have become a center for reinsurance, a form of insurance that arises as insurance operations lay off part of their exposures with other insurers to balance their portfolios and limit heavy concentrations of risk.

This creates a pool of business attractive to specialist reinsurance companies and captives alike. The latter also have looked outside business in recent years because of a number of tax requirements particularly affecting operations whose parent company is located in the United States.

The enactment of the new insurance rules in Luxembourg and the formation of a new insurance commissioner's office determined the details of minimum capital requirements for reinsurance and captive companies and set guidelines for such matters as the ethical and professional qualities of their managers.

These operations are required to obtain a license from the Ministry of Finance, which they receive only upon adopting the form of a "société anonyme," or limited company, and providing a fully paid-up capital of 50 million Luxembourg francs.

However, this capital requirement can be as little as 6 million Luxembourg francs for a captive insurance company that limits its business to parent-company risks.

Further rules govern the reserves that companies must hold to cover their liabilities — higher again for third-party reinsurers, lower for purely captive business.

The real attraction, however, for reinsurers is likely to be the offer of a 10-year tax holiday for a company's operation, provided no dividend remittances are made. Despite some initial uncertainty it would appear that this holiday, which can be used to build up a company's capital base, will apply to all the reinsurers operations, including underwriting and investment.

Further initial doubts about the management of such operations also appear to have been resolved. At first it was thought that each operation would be required to employ its own manager, who would have to prove his honesty and competence in the business of reinsurance. Such a requirement would have proved expensive since many captives in other locations are operated by specialist management companies offering their services to a number of different parties. Such companies are now permitted to operate and at least two are said to be active.

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New Eurobond Issues

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
FLOATING RATE NOTES						
Allied Irish Banks	$100	perpt	½	100	97.75	Over 3-month Libor, maximum 13% for first 12 years. Callable at par in 1997. Fees 1%.
Bank fur Gemeinwirtschaft	$100	1992	⅜	100	99.56	Over 6-month Libid, maximum 13%. Noncallable. Fees 0.55%.
Belgium	$400	2005	libid	100	99.60	Semiannual interest will be the higher of 6-month Libid or of the average of 1-month Libor rates. Callable at par in 1987. Fees 0.0425%. Denominations $250,000.
BNP	$250	1997	⅜	100	99.94	Over 3-month Libid, maximum 13%. Noncallable. Fees 0.35%. Denominations $100,000.
Citicorp Banking	$250	1997	3/16	100	99.50	Over Libid: Borrower to decide whether interest will be over 1-, 3- or 6-month rate. First coupon to be over 6-month rate. Callable at par in 1990. Fees 0.40%. Denominations $10,000.
Crediop	$150	1993	limean	100	99.62	Semiannual interest will be the higher of 6-month Limean, set monthly, or of the average of 1-month Libor rates. Callable at par on any interest payment date. Fees 0.45%.
Crédit Lyonnais	$250	1997	¼	100	99.75	Over 3-month Libor, maximum 12¾%. Noncallable. Fees 0.375%.
Kansallis Osake Pankki	$100	1997	⅜	100	99.60	Over 3-month Libid, maximum 13%. Noncallable. Fees 0.50%. Denominations $10,000.
Mitsui Bank	$150	1997	⅛	100	99.90	Over 3-month Libid, maximum 12¾%. Fees 0.375%.
Republic of New York Corp.	$100	2010	⅛	100	99.35	Over 3-month Libor. Callable at par in 1990. Fees 0.65%.
Swedbank	$75	1997	⅜	100	—	Over 3-month Libid, maximum 13%. Noncallable. Fees 0.50%.
Westpac Banking	$150	1997	¼	100	99.90	Over 6-month Libor, maximum 13%. Noncallable. Fees 0.40%.
Cooperative Bank	£75	2000	⅛	100	99.60	Over 3-month Libor. Callable at par in 1990. Fees 0.50%.
Korea Development Bank	ECU 50	1992	¼	100	—	Over 6-month Libor. Callable at par in 1988 and redeemable at par in 1990. Fees 1.125%.
FIXED-COUPON						
EdF	$225	1995	10	99½	94.75	Callable at 101 in 1992. Increased from $125 million.
Eurofima	$100	1995	10	100	96.38	Callable at 100¾ in 1992.
Florida Federal Savings & Loans	$160	1995	zero	36.15	34.05	Yield 10.71%. Proceeds $57 million. Backed by cash and securities.
John Labatt	$100	1995	10½	99½	96.13	Noncallable.
Laaneinstituttet for Skipsbyggeriene	$50	1990	9⅜	100	98.00	Noncallable.
LTCB	$150	1995	10⅛	100⅜	98.88	Noncallable. Denominations $10,000.
Procter & Gamble	$150	1995	10	100	96.13	Callable at 101 in 1992.
IADB	DM 250	1995	7¼	100	98.50	Noncallable.
Posts & Telecommunications of South Africa	DM 100	1990	7¾	99¾	98.00	Noncallable.
Posts & Telecommunications of South Africa	DM 100	1993	8	100	98.00	Noncallable.
All Nippon Airways	ECU 130	1995	9	100½	97.88	Noncallable.
Bank Mees & Hope	ECU 50	1992	9	100½	99.38	Noncallable.
C. Itoh	ECU 60	1992	8¾	100	98.00	Noncallable.
Fiat Finance & Trade	ECU 55.5	1990	8¾	100	98.00	Noncallable. Serial redemption starting in 1989 to produce a 4-yr average life.
Motorola	ECU 50	1992	8⅝	99¾	97.38	Noncallable.
Union Bank of Finland	ECU 15	1992	9¼	open	98.50	Noncallable. Price to be set June 28.
Hamilton Wentworth	C$ 25	1995	10¾	99¾	97.25	Noncallable.
Wereldhave	DF 75	1990	7½	100	—	Noncallable private placement.
Commonwealth Bank of Australia	Aus$ 100	1990	12⅝	100¼	98.63	Noncallable.
Erste Oesterreichische Spar-Casse Bank	Aus$ 40	1990	13⅛	100⅜	99.25	Noncallable.
*DG Bank	NZ$ 50	1990	16½	100¼	—	Noncallable.
Sweden	FF 500	2000	11	100	98.50	Callable and redeemable at par in 1990 and 1995 when new terms will be set.
Norsk Hydro	DK 250	1992	11⅜	100	—	Callable at 101 in 1990.
EQUITY-LINKED						
Kyotaru	$30	1995	open	100	98.13	Semiannual coupon indicated at 3½%. Callable at 102½ in 1988. Convertible at an expected 5% premium. Terms to be set June 26.
Sandoz Holdings Nederland	$100	1997	open	100	98.50	Coupon indicated at 4¼/4½%. Callable at 103½ in 1990. Convertible into participation certificates at an expected 10% premium.
Tokyu Department Stores	$50	1990	7⅛	100	100.00	Noncallable. Each $5,000 note with one warrant exercisable into shares at an expected 2½% premium. Terms to be set June 27.
Viacom Int'l	$50	2000	open	100	96.88	Coupon indicated at 7/7½%. Convertible at an expected 15-18% premium. Terms to be set June 25.
Pabelfima	ECU 20	1995	7	100	99.50	Noncallable. Each 1,000-ecu note with six 5-yr warrants exercisable into shares of Papeteries de Belgique at a 8.69% premium.

Lack of Rate Cut Unsettles Market

(Continued from Page 7)

includes a maximum coupon of 13 percent with the rate of interest set at ⅜-point over Libid. Normally, there is a ⅛-point difference between the bid-offered rate, which means that ⅜ over Libid is the same thing as ¼-point over Libor.

The advantage to the borrower by basing the rate on Libid is that in the event of a crisis in the interbank market — which in the past has resulted in a substantial widening between bid-offered quotes — there could be a substantial saving over having set Libor as the base.

In all, $1.175 billion worth of capped FRNs were issued last week. And with short-term interest rates beginning to rise again, bankers were warning that the demand for capped paper was not keeping pace with the ever increasing supply.

There were also complaints that too much French bank paper was coming to the market. Indo-Suez and Banque Française du Commerce Exterieure were the first to tap the market and last week were followed by Banque Nationale de Paris and Crédit Lyonnais.

Crédit Lyonnais antagonized the market by setting a cap of 12¾ percent, as did Mitsui Bank. The French bank attempted to compensate holders of its 12-year paper by setting its interest at ¼-point over Libor while Mitsui set ⅛-point margin over Libid on its 12-year issue. Despite the slightly better conditions on the Crédit Lyonnais paper, the Mitsui issue traded better — down 10 basis points from the offering price, compared with down 25 basis points for Crédit Lyonnais.

The worst received was Allied Irish Bank's $100 million of capped, perpetual bonds. The mixing of these two special elements was not fortuitous. In addition, both Allied Irish and Republic of New York (which offered $100 million of classic 25-year FRNs priced at ⅛-point over Libor) suffered from having had previous FRNs trade poorly, leaving investors with bad feelings about both names.

Allied Irish set its coupon at ½-point over three-month Libor with the cap of 13 percent to run for the first 12 years. Commissions paid to underwriters totaled 1 percent and the notes ended the week at 97¾ — a stiff 1¼-point loss for banks participating in the deal.

Citicorp also failed to find favor with its innovation of retaining the option to set the interest period at whichever rate is more favorable to itself. It will pay interest of 3/16-point over the one-, three-, or six-month Libid for its $250 million. The first coupon period will be set over the six-month rate, which currently is the highest of the three options. But holders are offered no security that Citicorp will always choose the highest rate during the 12-year life of this issue. The notes traded at 99½, a slight loss for underwriters who bought the paper at 99.60.

Belgium tapped the market for $400 million using the currently unpopular mis-match formula. Interest on the 20-year notes will be set at one-month Libor or six-month Libid, whichever is higher. This protects banks against an inversion of the yield curve and enables them to finance their holdings by borrowing one-month money at 7 11/16 percent and earning the six-month Libid rate of 8 percent.

The ECU market suffered last week as coupon levels on most new issues — ranging from 8⅝ to 9 percent — trail the 9¼-to-9⅜-percent borrowing costs banks need to pay to finance their underwritings. As a result, these issues were trading at discounts of around 2 percent.

Breaking this trend was Union Bank of Finland, which set a coupon of 9¼ percent on its seven-year issue of 15 million ECU. The offering price will be set June 28, but the notes were trading at a discount of 1½ points.

The Belgian paper company Pabelfima offered the first equity-linked ECU issue. It is selling 20 million ECU of 10-year bonds bearing a coupon of 7 percent. Each bond carries warrants to buy 18 shares of Papeteries de Belgique, the parent company, at a price of 2,500 Belgian francs. The shares currently are trading at 2,300 francs. The warrants can be exercised between next January and Dec. 31, 1990.

The New Zealand dollar market was also hard hit by high finance charges forcing underwriters who could not find buyers to dump their holdings. Bankers reported that underwriters without access to retail clients were dumping paper at discounts of up to 4 points. This was being taken up by retail-oriented banks who were offering paper to their clients at only modest discounts.

The latest to tap this market is DG Bank, which is offering 50 million dollars of five-year, 16½-percent notes at a price of 100¼. These high coupons appeal to investors in the Benelux countries and Switzerland, but banks who face financing charges of more than 20 percent or run an exchange risk by financing in U.S. dollars are not eager to warehouse paper that is not quickly sold.

Shell Will Buy 400 Arco Stations

Los Angeles Times Service

LOS ANGELES — Atlantic Richfield Co. has agreed to sell about 400 gasoline stations in eastern states to Shell Oil Co., which will make Shell the biggest U.S. retailer. The price was not given.

Analysts said the sale would significantly strengthen Shell's position on the East Coast, where it is the second biggest gasoline retailer with 10.5 percent of the market, behind Amoco with 19.9 percent.

Arco previously announced plans to sell assets east of the Mississippi and concentrate on West Coast retailing. The 400 stations are in Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, Rhode Island, Virginia and Washington.

Coke Taps Market for $365-Million Note Facility

By Carl Gewirtz
International Herald Tribune

PARIS — With banks rushing to turn their assets into marketable securities it was inevitable that corporations would ultimately do the same. The first company to use the Euromarket in this way is Coca-Cola Co.

It has created a special-purpose company, EBS Financial Corp., which is arranging a $365-million note issuance facility. The money

SYNDICATED LOANS

raised by EBS will be paid to Coke in exchange for receivables it is owed from theater distributors via its subsidiary Columbia Pictures Industries Inc.

Coca-Cola is not directly guaranteeing EBS but is providing assurance that the receivables will be paid. These payments will provide EBS the income to service the note facility.

For Coke, the operation means a lightening, albeit only by a pittance, of its balance sheet and an increase in its working capital.

Annual payment of the receipts means that the amount of the four-year facility outstanding each year will be reduced, producing an average life of only 1¾ years.

Underwriters of the facility will earn an annual fee of 1/16 percent, or 6.25 basis points. Banks will be invited to bid for the notes but the underwriters also stand ready to accept the notes at a maximum charge of ¼-point over the London interbank offered rate. If underwriters wind up taking more than half of the total, they will earn an additional ⅛-point.

Assuming the worst case, in which underwriters take all the paper, Coke would pay 25 basis points on the interest, plus an annual 6.25 basis points, plus a front-end fee of 9 basis points — or 2.25 a year — for a total cost of 33.5 basis points. The annual facility fee increases to 7.5 basis points as the amount outstanding decreases through amortization.

Crediop, the Italian state-owned medium-term credit agency, is also tapping the market through a special purpose company, Prism Bond GmbH, set up by Merrill Lynch and the Law Debenture Society. This is a conduit company designed to provide the loan via West Germany so that Crediop can benefit from the Italian-German tax treaty to escape payment of the Italian withholding tax on interest payments.

This is similar to the operation conducted a week earlier by Bankers Trust Co. for Isveimer, Italy's regional development agency. While Prism will be the actual issuer of $150 million of eight-year floating-rate notes, Prism's sole asset is the loan to Crediop and thus it is a Crediop risk that purchasers of the FRN will be buying.

Interest on the FRN is based on the mismatch formula with Crediop paying the average of the six-month London interbank bid-offered rate or one-month Libor, whichever is higher.

Canada Permanent Mortgage Corp. is arranging a $75-million transferable loan facility — a syndicated credit that lenders can sell to other institutions. Interest on the six-year facility will be set at 30 basis points over six-month Libor. Front-end fees total 10 basis points and a commitment fee of ⅛-percent will be charged on any undrawn amount.

Syndication of the $1.5-billion note facility for Sweden has been completed with subscriptions of $1.8 billion. No decision has been made on whether to increase the amount.

Elsewhere, two Spanish borrowers are renegotiating outstanding credits to take advantage of the reduced charges now available. ICO, the state credit agency, is renegotiating a $200-million, 10-year credit arranged in 1981 on which it was paying ½-point over Libor.

The new 10-year loan of $180 million will be split with half priced at ¼-point over Libor for the first two years and ⅜-point over for the remainder. Pricing on the other half will be set for the first two years at 37.5 basis points over the 90-day reserve adjusted rate for certificates of deposit and 50 basis points over for the final eight years.

Iberduero, Spain's largest private electric utility, is renegotiating a five-year, $90-million loan signed in 1983 on which it was paying ⅝-point over the prime rate or 155 basis points over the adjusted CD rate, whichever was lower. Its new 10-year, $90-million loan will be priced either at ⅜-point over Libor or at the lower of 15 basis points over the prime rate, or 110 basis points over the CD rate.

Krediethux Indices — June 21

(Base 100 May 1, 1977)

Industrials, US $ L.T.	101.482
Int'l Institutions US $ L.T.	105.151
US $ medium term	108.164
Canadian $ medium term	106.437
ECU medium term	104.201
UC 9	92.591
DM	99.594
Guilders	102.498
FF short term	116.869
F Lux	99.895
Int'l Inst. F Lux medium term	107.533
F Lux medium term	107.530
Int'l Inst. Yen long term	102.211
ECU short term	107.601
ECU long term	107.022

Prices of Bonds Decrease Sharply As Discount Cut Appears Less Likely

By Phillip H. Wiggins
New York Times Service

NEW YORK — Frustrated expectations of a cut in the Federal Reserve's discount rate have pushed down bond prices sharply.

Early on Friday, the credit markets continued to react negatively to the unexpectedly sharp jump of $4.8 billion in the basic U.S. money supply, M-1, reported late Thursday. But the selling waned after lunch, when sporadic bargain-hunting appeared.

M-1 includes currency in circulation, travelers checks and checking deposits.

Bond prices last rose on Tuesday, after several major banks lowered their prime lending rates to 9.5 percent from 10 percent. On Wednesday bond prices moved lower and that trend picked up Thursday, because of the government's estimate of stronger growth in the current quarter and then the money-supply report.

Gary Ciminero, chief economist at Fleet Financial Group in Providence, Rhode Island, said the week's gyrations reflected a sobering of overly optimistic expectations. "Especially disappointing to a market that expected weak economic growth and further Fed easing were stronger economic figures

U.S. CREDIT MARKETS

and the failure of the Fed to cut the discount rate another half a percentage point, to 7 percent," he added.

Dennis J. McDonnell, senior vice president of Van Kampen Merritt, an investment banking firm based in Naperville, Illinois, said the bond market could still move lower in the long term.

He cited a variety of factors, including "pressure on commodities, a slowdown in the growth of private credit demand, and the effects of the continued strength of the dollar on prices and output."

On Friday, short-term Treasury bill rates were slightly higher with the three-month issue bid at 7.05 percent, up from 6.79 percent, while the six-month issue finished at 7.25 percent, up from 7.12 percent.

In the intermediate sector, prices of Treasury notes slipped, with the new 8.5-percent, two-year issue falling 8/32, to 99 14/32.

At the longer end of the government debt market, the price of the Treasury's key 30-year, 11¼-percent bond was off as much as half a percentage point Friday, before late buying cut the loss in half. At the close the yield was 10.58 percent, up from 10.48 percent on Thursday, when the bond dropped as much as 1⅛ points.

U.S. Consumer Rates

For Week Ended June 21

Passbook Savings	5.50 %
Tax Exempt Bonds Bond Buyer 20-Bond Index	8.69 %
Money Market Funds Donoghue's 7-Day Average	7.52 %
Bank Money Market Accounts Bank Rate Monitor Index	7.08 %
Home Mortgage FHLB average	13.70 %

U.S. Indicts 14 in Sugar-Import Fraud

By Mary Thornton
Washington Post Service

WASHINGTON — A federal grand jury has indicted 14 persons and 13 businesses in the first phase of a U.S. Customs Service investigation of the sugar industry.

Customs officials said the investigation could eventually lead to $1 billion in fines and restitution payments. They said the investigation has found widespread evidence that sugar dealers have evaded sugar-import quotas and simultaneously defrauded the government of import duties.

The investigation comes at an inopportune time for the U.S. sugar industry. Congress is considering this year whether to continue sugar price supports established in 1982. Proponents argue that the supports protect U.S. producers and consumers from wide price fluctuations; opponents say the supports produce higher costs to consumers.

Customs officials said Friday that as much as 500 million pounds (225 million kilograms) of sugar a year has been illegally entering the U.S. market. Lost import duties over several years were estimated at $50 million.

A 1983 change in Agriculture Department rules allows specially licensed importers to bring foreign sugar into the United States for refining, then to export it within 90 days for sale abroad. Importers pay duty of 2.8 cents a pound when the sugar comes into the United States but receive a "drawback" — or refund — of 99 percent when the refined product is exported.

The dealers indicted Friday allegedly imported the sugar, paid the proper duties and then filed fraudulent forms to indicate that the refined sugar had been exported, allowing them not only to claim the drawback but to sell the sugar illegally in the United States.

Those named in the indictments included sugar brokerage, storage and transportation companies and their owners and officials. Customs sources said all but one are expected to enter into a plea-bargaining arrangement.

The remaining defendant, José Miguel Arago, 38, a Miami sugar dealer, was described as the operation's "kingpin." Customs officials said Mr. Arago is believed to be vacationing in the Bahamas.

Clouds Over U.S. Economy

(Continued from Page 7)

crease in the stock of capital assets owned by business.

Some foreign investors helped pay for those assets directly by buying shares in U.S. companies, or joining limited partnerships to build or buy real estate, for example. In other cases, the foreigners bought U.S. government securities issued by the Treasury to help finance the budget deficit.

Allen Sinai, economist of Shearson Lehman Brothers, said the long string of huge U.S. budget deficits had stimulated growth and raised interest rates, strengthening the dollar. "Imports increase and the pace of exports decreases. A worsening trade deficit and an increased trade debt result," he said.

"So long as the huge federal budget deficits remain, the process continues until the trade sector becomes so weak that economic growth slows, interest rates drop, the dollar declines and the process is reversed," Mr. Sinai added.

Concerned about the condition of financial institutions, the value of the dollar and the plight of the manufacturing and agricultural sectors, the Federal Reserve has been pumping large amounts of money and credit into the economy. In the process, the central bank has had to ignore its targets for growth of M-1, which includes cash and checking accounts.

Meanwhile, the U.S. government continues to sop up money from the capital markets like a sponge. The budget deficit for fiscal 1985, which ends Sept. 30, will be more than $200 billion, probably about $206 billion. That means that $806 billion would have been added to the national debt in the five years of the Reagan presidency, pushing the total to about $1.825 trillion at the end of the year.

A portion of the federal deficit is being offset by surpluses of $50 billion to $55 billion at the state and local government level. But taken together, the total government deficit will still amount to about 3.8 percent of GNP.

Once the federal government has financed its deficit, about 3.1 percent of GNP is left to support all net investment.

FDIC Is Named As the Receiver For N.Y. Bank

United Press International

NEW YORK — Anxious depositors gathered on the weekend outside the Golden Pacific National Bank in New York's Chinatown district, after the Federal Deposit Insurance Corp. announced the bank had been closed Friday.

FDIC officials spent Saturday in the bank's offices, where a notice posted by the Controller of the Currency's Office said the FDIC had been appointed as receiver. A spokesman for the bank, with deposits totaling $150 million, was not available for comment.

An FDIC spokesman said deposits of up to $100,000 were insured by the federal government, but it was not known how many of the bank's deposits were for amounts greater than that.

The bank's closure was announced late Friday by the FDIC. Such a late announcement is relatively rare, according to industry observers. Bank closure announcements usually are made just after 4 P.M. on Fridays, shortly after the closing of financial markets.

International Bond Prices - Week of June 20

Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277

Prices may vary according to market conditions and other factors.

(Continued from Page 8)

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
$ 75	Levi Strauss Intl Fin	11	'90 Jul	100	10.99		11.00
$ 100	Macy Credit Corp	11¾	'95 Feb	106¼	10.64		11.05
$ 100	Macy Rh O/s Finance	11¾	'91 Jan	106⅛	10.16		11.05
$ 100	Manufact Hanover X/w	13½	'86 Sep	107¼	11.74		12.7
$ 100	Manufact Hanover O/s	13¾	'87 May	106½	10.05		12.04
$ 100	Manufact Hanover O/s	13½	'87 Sep	106¾	9.88		12.65
$ 50	Manufact Hanover O/s	10¼	'88 May	100	10.24		10.25
$ 100	Manufact Hanover O/s	10¼	'90 May	97½	10.92		10.51
$ 75	Mcdonalds Corporation	12¼	'87 Oct	104⅝	9.88		11.49
$ 140	Mcdonalds Corporation	10⅝	'90 Apr	98⅝	11.17		11.00
y 25000	Mcdonalds Corporation	6½	'92 Jan	97¼	6.93		6.65
$ 75	Mcdonalds Finance Co	9⅞	'93 Feb	96	10.64		10.29
$ 75	Mcdonalds Finance Co	11⅛	'94 Jan	103½	10.95		11.23
$ 50	Mcdonnell Douglas Fin	17	'89 Feb	106½	14.49		15.96
$ 100	Mellon Bank	13	'87 Sep	106⅝	9.47		12.19
$ 100	Mellon Financial Co	11⅞	'95 Mar	103¾	11.08		11.23
$ 100	Merrill Lynch Co	12¾	'89 Oct	106⅜	10.78		11.99
$ 100	Merrill Lynch Co X/w	12½	'94 Dec	106½	11.32		11.74
$ 200	Merrill Lynch O/s Cap	10⅝	'90 Apr	101¼	10.27		10.49
$ 200	Mobil Corporation	10¼	'90 May	101	9.98		10.15
$ 35	Mobil Intl Finance	7	'86 Aug	99	7.91	7.78	7.07
$ 50	Montana Power Intl Fi	15¾	'87 Dec	103¼	13.43		14.89
$ 50	Montana Power Intl Fi	14¼	'89 Sep	105	12.61		13.57
$ 150	Morgan Guaranty Trust	12¼	'89 Apr	107	9.95		11.45
$ 150	Morgan Guaranty Trust	12⅜	'89 Oct	107½	10.18		11.51
$ 100	Morgan Jp Co Inc	11¼	'92 Feb	103¾	10.47		10.87
$ 150	Morgan Jp Intl Capita	11⅛	'90 Aug	106⅝	10.16		10.87
$ 75	Motorola Inc	12¼	'94 Dec	101¼	11.99		12.10
$ 100	Motorola Inc	11⅛	'97 May	103	11.03		11.77
$ 50	Natomas O/s Finance	15¾	'84 Jul	105⅝	9.73		14.89
$ 100	Nestle Holdings Inc	9¾	'91 Jun	101	9.64		9.78
$ 50	New England Life	11½	'92 Feb	103½	10.78	10.36	11.11
$ 149	New England Life	11¾	'95 Feb	107	10.53	10.48	10.98
$ 50	New York Times Intl	12¾	'87 Oct	104	10.64		12.26
$ 50	Niagara Mohawk Financ	17	'89 Sep	110½	13.52		15.38

[illegible]

DM STRAIGHT BONDS

AUSTRALIA

[illegible]

AUSTRIA

[illegible]

BELGIUM

[illegible]

CANADA

[illegible]

CHINA

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ICELAND

[illegible]

IRELAND

[illegible]

ITALY

[illegible]

JAPAN

[illegible]

LUXEMBOURG

[illegible]

MEXICO

[illegible]

MISCELLANEOUS

[illegible]

NETHERLANDS

[illegible]

NEW ZEALAND

[illegible]

NORWAY

[illegible]

PORTUGAL

[illegible]

SOUTH AFRICA

[illegible]

SOUTH AMERICA

[illegible]

SPAIN

[illegible]

SUPRANATIONAL

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

UNITED KINGDOM

[illegible]

UNITED STATES AMERICA

[illegible]

FOREIGN TARGETED BONDS OF THE US TREASURY AND OF ITS AGENCIES

[illegible]

Chicago Exchange Options

For the Week Ending June 21, 1985

[illegible]

CONVERTIBLE BONDS

EUROPE

[illegible]

JAPAN

[illegible]

MISCELLANEOUS

[illegible]

UNITED STATES AMERICA

[illegible]

Amt	Security	%	Mat	Price	Conv. Period		Conv. Price/sh	Curr. Yld.	Prm.
$ 30	Southland Corp 45.19	5	'87 Jul	151	1 Feb 73	maturity			
$ 35	Southwest Airli 24.11	6¾	'98 Jul	87	8 Nov 82	maturity	$22.130	4.18-	2.87
$ 15	Spectra-Physics 23.39	8	'94 Dec	72	2 Apr 80	maturity	$28.200	23.01	.48
$ 80	Sperry Rand Co 19.42	4¼	'88 Feb	185	15 Mar 74	maturity	$42 3/4	93.89	
$ 50	Squibb Intl Fin 17.54	4¾	'87 Jun	187	15 May 73	maturity	$51 1/2	5.77	3.76
$ 100	St Paul Comp 14.87	7½	'80 Apr	107¾	15 Apr 85	maturity	$57	3.15	2.44
$ 1000	Texaco Capital 20.80	11⅞	'94 May	107¾	1 May 84	maturity	$67 1/4	5.27	4.65
$ 500	Texaco Capital 20.80	11¾	'94 May	107¾	15 May 84	maturity	$50	41.75	7.92
$ 75	Texaco (europe) 22.60	4½	'88 Jul	91	15 Apr 69	maturity	$50	41.40	7.92
$ 25	Texas Intl Airl 68.97	7½	'93 Aug	93	15 Dec 78	maturity	$44 1/4	4.22	7.92
$ 30	Tipco Finance 33.13	8¼	'96 Mar	48	16 Oct 81	maturity	$14 1/2	7.80-	
$ 50	Tosco Intl Fin 26.78	8	'95 Oct	46½	1 Apr 81	10 Oct 95	$30.180	124.33	
$ 50	Transco Intl 16.47	8¾	'95 Dec	97½	14 Aug 83	maturity	$37 3/8	595.18	
$ 20	Tricora Oil Gas 32.80	8½	'95 Sep	48½	24 Feb 81	maturity	$60.720	22.87	4.29
$ 10	Trw Intl Financ 19.05	5	'88 Feb	137	1 Feb 69	maturity	$31 1/4	20.39	.47
$ 50	Usair Finance 28.67	7	'98 Sep	109	15 Mar 84	maturity	$52 1/2	3.94-	2.74
$ 20	Varco Intl Fin 32.79	8½	'96 Mar	45	20 Oct 81	maturity	$34 7/8	9.80	.54
$ 40	Warner Lambert 20.83	4½	'87 Apr	98½	1 Apr 73	maturity	$30 1/2	449.00	
$ 30	Warner Lambert 14.26	4¼	'88 Apr	90	1 Apr 76	maturity	$48	14.42	3.59
$ 20	Warner Lambert 34.48	4½	'88 Aug	137	1 May 69	maturity	$41 1/2	34.18	3.59
$ 75	Xerox Corp 6.76	5	'88 Dec	87½	1 Jan 75	maturity	$29	3.48-	3.59
							$ 140	146.22	6.1

HIGHEST CURRENT YIELDS

On convertibles having a conversion premium of less than 10%.

Amt	Security	%	Mat	Price	Conv. Period		Conv. Price/sh	Curr. Yld.	Prm.
$ 50	Nat Overseas 1119.56	10½	'94 Jul	100	1 Nov 84	26 Jul 94	ns$ 1,800 - ns$ 1,784	5.16	4.09
$ 25	Jaccs Co Ltd	7½	'95 Mar	84	1 Nov 80	21 Mar 95	Y 386.70 - 435.440	4.25	1.05
$ 50	Sumitomo Metal Indust	7	'95 Sep	83¾	2 Feb 87	20 Sep 95	Y 175.70 - 199.440	6.20	3.21
$ 15	Massmutual Mtge 50.00	8	'94 Jul	95	30 Sep 87	maturity	$ 20	1.30-	9.35
$ 35	Inchcape Bermy 151.21	6¾	'92 Apr	82	15 Oct 77	18 Mar 92	p 385 - p 503.238	6.49	4.40
$ 50	Daiei Inc	6¼	'94 Aug	80	1 Nov 79	30 Aug 94	Y 843 - 926.696	.49-	2.21
$ 25	American Medica 48.26	9¼	'97 May	114½	28 Aug 82	maturity	$ 20.720	.11-	2.03
$ 25	Thorn Intl Finance	7	'88 Jul	88½	1 Nov 78	10 Jul 88	p 348 - p 499.299	3.97	3.71
$ 25	Sankyo Electric Co	8¼	'95 Mar	104½	1 Apr 80	20 Mar 95	Y 525 - 536.796	4.45	1.84
$ 50	South Calif Edi 61.78	12½	'97 Aug	158¾	7 Jan 83	maturity	$ 16.180	6.97-	7.38
$ 15	Dynalectron Int 81.83	9½	'95 May	121	9 Sep 80	maturity	$ 12.220	1.42-	1.67
$ 20	Toyo Menka Kaisha	7¼	'96 Mar	99¼	1 Dec 80	21 Mar 96	Y 183.80 - 210.055	6.99-	2.25
$ 25	Jaccs Co Ltd	5½	'96 Mar	72	1 Oct 81	21 Mar 96	Y 487.10 - 517.820	6.86	1.85
$ 35	Babcock Nederland	7	'92 Oct	93	17 Apr 78	15 Sep 92	p 113 - p 149.892	1.28	5.09
$ 30	Aga Ab	9½	'96 Sep	125⅝	1 Feb 87	15 Jun 96	skr 178 - skr 275.922	3.44-	1.82
$ 80	Cadbury Schweppes	8	'89 Dec	109	15 Jan 86	8 Dec 00	p 182 - p 149.716	.43	-5.18
$ 20	Banca Svizzera Italia	6	'93 Oct	83	1 Dec 83	maturity	$ 1014	8.14	1.99

Explanation of Symbols

CN$	Canadian Dollar	SDR	Special Drawing Rights
ECU	European Currency Unit	Y	Yen
EUA	European Unit of Account	LFR	Luxembourg Franc
L	Pound Sterling	SFR	Swiss Franc
DM	Deutsche Mark	FF	French Franc
NMD	Norwegian Kroner - DM		

NASDAQ National Market

	Div.	Yld.	Sales in 100s	High	Low	Close	Net Ch'ge
A							
A&M Fd			54	6	5¾	5⅞	— ⅛
ADC Tl			241	17½	16¾	16¾	— ¾
AEC	.32	3.1	52	10¼	9¾	10¼	+ ¼
AEL s			61	24	23	23	
AFG			1070	21	20⅞	20⅞	— ⅛
ASK			2934	11¼	10½	11¼	+ ½
AST			4497	14⅝	13⅝	14⅜	+ ¼
AT&E			1254	10⅛	9¼	9¾	+ ¼
ATE			4	3⅞	3⅞	3⅞	— ⅛
AeroRt			334	22¼	21	21½	— ¾
Abrams	.24	3.9	26	6¼	6⅛	6⅛	— ⅛
Acadin	.20	2.9	1006	7⅜	6⅞	7	— ⅛
AcapRs			150	4¾	4¼	4½	— ¼
Acelrtn			616	9½	9	9½	
AcuRay	.20	.9	756	23⅝	22	22½	+ ⅝
Acelo s			222	15¼	14¼	15¼	+ ¾
ACMAT			8	8½	8½	8½	+ ¼
Activsn			1861	1	⅞	⅞	— ⅛
Actmd s			249	19¾	19¼	19¼	— ¼
AdacLb			2324	3⅛	2½	2½	— ⅝
Adape			364	7	6½	6¾	+ ⅜
AdlsnW	.70	2.3	663	30¾	30	30⅝	
Adia	.09e	.4	456	21	19¾	20¼	— ¼
AdvCir			2479	8⅞	8⅛	8⅞	+ ⅜
AdCpt			74	3½	3¼	3¼	— ¼
AdvEn s			484		⅝	⅛	
AdvGen			1890	4⅜	3⅞	4⅜	+ ⅜
AdvSem			280	10¾	10	10¼	+ ¼
AdvTel			426	5⅝	5½	5½	— ¼
Aequtrn			209	4⅞	4½	4½	— ⅜
AerSvsl			1914	2½	1⅞	2⅜	+ ⅜
AffBcp	1.00	5.3	38	19½	17½	19	
AffBsh	.80	4.7	1478	17¼	16¾	17	— ⅛
CapSwt	.16e	.9	167	17¾	17½	17¾	
CapFSL	.20	1.8	1947	11	10	11	+ ⅜
CapCrb			1376	1⅞	1⅝	1⅞	— ⅛
CardDis	.08r	.5	382	17¼	16½	17	+ ⅜
Caremk			5554	10⅜	9¾	10½	+ ⅝
Cardis			225	8	7¾	8	
CareerC	.081	2.2	848	3¾	3½	3⅝	— ¼
Carlsbg			47	8⅜	8	8	
Caralin			507	1⅞	1⅝	1⅞	+ ⅛
Cartert	1		3409	13⅝	12½	13⅜	+ ¾
Cascode	1.40a	3.0	3	46½	46½	46½	— ½
Caseys			369	26¾	26⅜	26½	— ¼
Cancer s			133	9½	8¾	9¼	
CntrBc	1.80	5.9	517	30¾	30½	30½	— ¼
Centcor			2001	16¼	13½	14⅜	—1⅝
CenBcp	2.05b	4.5	433	45⅝	44¾	45¾	+ ¾
CnBshS	1.52	4.4	604	34¾	32	34¾	+2¾
CFdBk s	.84	3.1	1022	27⅜	26⅝	27⅛	— ½
CJerBc	1.20	4.9	71	24¾	24	24⅞	+ ⅜
CnPaSv	.50	3.8	71	13¼	13	13¼	
CRsvLf	.18	1.2	428	16½	14½	14½	—2
CWisBn	.84b	2.7	64	31	28½	31	
Contron	.80	2.0	349	40¾	39⅜	40½	+ ⅜
Centuri			509	1⅞	1⅝	1⅝	— ⅛
CnlvP s	.091	.8	26	11½	11	11	— ½
Cerdyn			723	14⅝	13⅝	14⅛	+ ¼
CerbrA	.12	1.5	140	7⅞	7½	7⅞	+ ⅛
Cermtk			391	2⅝	1⅞	2⅛	— ¼
Cetus			2213	11½	10¾	10⅝	— ⅝
ChadTh			52	¾	¾	¾	
ChmpPt	.10	2.0	106	5⅝	5⅛	5⅛	
ChncCp			255	6⅛	5⅝	6	
Chaorol			1468	2⅛	1¾	1⅞	— ⅛
ChapEn			1277	4⅞	4½	4⅝	— ⅛
Chargit			455	9¾	8¼	8½	—1⅛
CharCh			79	7	6¾	7	+ ⅛

American Exchange Options

For the Week Ending June 21, 1985

Over-the-Counter

Chileans Meet With Bankers On Plan for Refinancing

United Press International

NEW YORK — Chilean officials are meeting with a committee representing the country's creditor banks in an attempt to complete a multiyear refinancing agreement that would include $1 billion in new money.

Chileans and the bankers are under pressure of a June 30 deadline, when a six-month extension expires on principal payments on Chile's $19-billion foreign debt and roughly $2 billion of credit lines.

Hernan Somerville, Chile's foreign-debt coordinator, and Enrique Tassara, president of the central bank, joined the meeting on Friday. The bankers had been meeting throughout last week.

Sources said the principal topic under discussion was the request for $1 billion in new money and the more than two-thirds of Chile's private-sector debt that is not guaranteed by the government.

The bankers reportedly are asking for a guarantee from the republic for the private-sector debt and the Chileans are holding out for a lower spread in return.

Differences over how to pay private-sector debt held up Venezuela's negotiations for weeks.

Chile is attempting a refinancing for roughly $6.5 billion in debt maturing in 1985 through 1987.

The country is to receive soon a $250-million disbursement from a $750-million standby credit from the International Monetary Fund.

Competitors Chase Outboard Marine

(Continued from Page 7)

producers, including Suzuki and Honda, are in the market, but have not proved as aggressive as Yamaha.

Outboard Marine's executives are used to dealing with rough times, although their problems in the past tended to be somewhat different. The difficulties of marine engine sales over the last 15 years have largely been due to the intermittent energy crises that created gasoline shortages, and raised fuel prices and the specter of a ban on weekend boating.

From a peak of 585,000 outboards sold in 1973, sales of the engines fell to a low of 293,000 units in 1982. Sales rose to 411,000 last year, but have been flat so far this year.

Outboard Marine had expected to achieve sales of $1 billion this year, but is now aiming lower. "That was our intention, but we hit a lull," Mr. Strang says.

In fact, the company's sales for the January-to-March quarter this year dropped about 11 percent, to $223.8 million, from the period a year ago. Net income for the quarter plunged 71 percent, to $4.3 million. In the fiscal year 1984, which ended last September, the company's earnings rose 34 percent, to $52.7 million, on a 17-percent increase in sales, to $921.6 million.

Outboard Marine, formed in 1935 by the merger of the remnants of Evinrude Motors and Johnson Motors, still produces marine engines under those trade names. Marine products accounted for nearly 80 percent of Outboard Marine's sales and 91 percent of its operating earnings in its most recent fiscal year. The company also manufactures Lawn-Boy lawn mowers, Cushman light industrial vehicles and Ryan turf care equipment.

The company's line of outboard motors runs the gamut from 2 horsepower to about 300 horsepower, with list prices from $650 to $13,500. But it has been growth in the stern drive segment that has particularly attracted the company.

Industry observers say that many of today's first-time boat buyers are more comfortable with the stern drives, which look and sound more like automobile engines and less like their outboard cousins. "Some people just want to get aboard and turn the key," says Doug Schryver, executive editor of Boating magazine.

Outboard Marine's stern drives cost from $4,700 to $8,800.

The company, based in Waukegan, Illinois, produced about half of the outboard motors sold in the United States last year. But this year, it has been buffeted by a number of market factors, including sluggish first-quarter economic growth. More recently, Outboard Marine has been troubled by overstocked retail inventories.

Normally, Outboard Marine and other manufacturers sell 60 percent of their output from February to June, as boaters prepare for summer recreation. Now with that period nearing an end, Outboard Marine's dealers appear to be largely selling from existing inventories.

While Outboard Marine is hoping that strong late-summer buying by dealers replenishing inventories will lift the company's performance this year, Wall Street analysts are not banking on it. They have lowered earlier earnings estimates for the company.

Lee S. Isgur, with Paine Webber Inc., is forecasting a 1985 decline in earnings to $2.57 a share, from $3.02 last year. "This is an extremely cyclical business," he says, while at the same time praising the "fine job" the company has done in paring costs, particularly to meet import competition. Mr. Isgur predicts a rebound in earnings in fiscal 1986 to about $3.45 a share.

But Outboard Marine is mired in a dispute with the government that industry observers find troubling. For seven years, the company has been battling with the Environmental Protection Agency over polychlorinated biphenyl, or PCB, pollution of Waukegan harbor. The agency charges that the company deposited about 1.1 million pounds (500,000 kilograms) of the now-banned chemical into the harbor and surrounding land for 20 years until the mid-1970s. The EPA estimates that a cleanup would cost $27 million. The company said that the outcome of the dispute was unlikely to materially affect its financial position.

Outboard Marine challenges the EPA's claim that the chemical deposits are harmful.

U.S. Tool Orders Increase in Month

Reuters

WASHINGTON — U.S. machine-tool orders rose 21.6 percent in May to $223.2 million from $183.5 million in April, the National Machine Tool Builders Association has reported.

In its monthly statistical survey, the U.S. tool-industry trade association said Saturday that May orders were down 30.2 percent from orders of $319.6 million in May last year.

The association said metal-forming tool orders fell 14.8 percent last month to $52.3 million from $61.4 million in April, and fell 60.1 percent from $131.1 million in May, 1984.

Mutual Funds

Closing Prices June 21, 1985

Treasury Bills

Source: Federal Reserve Bank

Consolidated Trading Of NYSE Listing

Week ended June 21

Issues Traded In: 2,249
Advances: 1,234 ; declines: 749
unchanged: 266
New highs: 395 ; new lows: 78

Volume	
This week	510,270,000 shares
Last week	487,820,000 shares
1984 same week	504,770,000 shares
1985 to date	12,954,080,000 shares
1984 to date	11,058,930,000 shares
1983 to date	10,786,020,000 shares

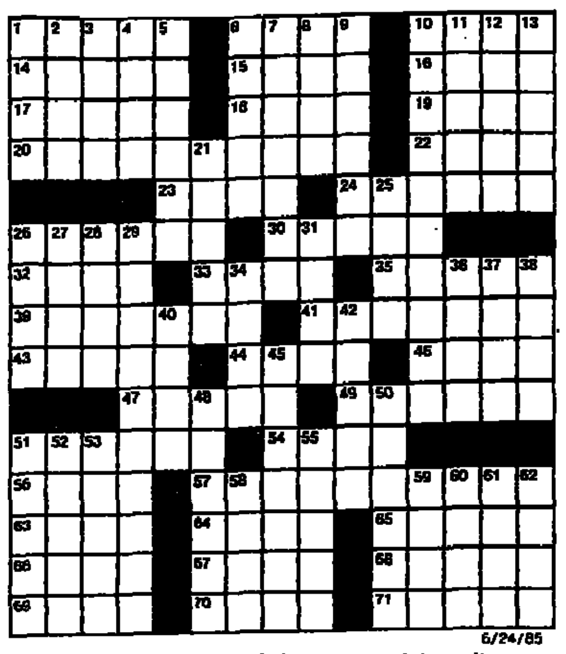
Consolidated Trading Of AMEX Listing

Week ended June 21

SELECTED U.S.A./O.T.C. QUOTATIONS

	BID	ASK
Apollo Comp.	17	17¼
Mr Gasket	9⅜	9½
Bitter Corp.	2⅞	3¼
Modulaire	7⅝	7⅞
Rodime	7¾	8

WITH COMPLIMENTS OF CONTINENTAL AMERICAN



6/24/85

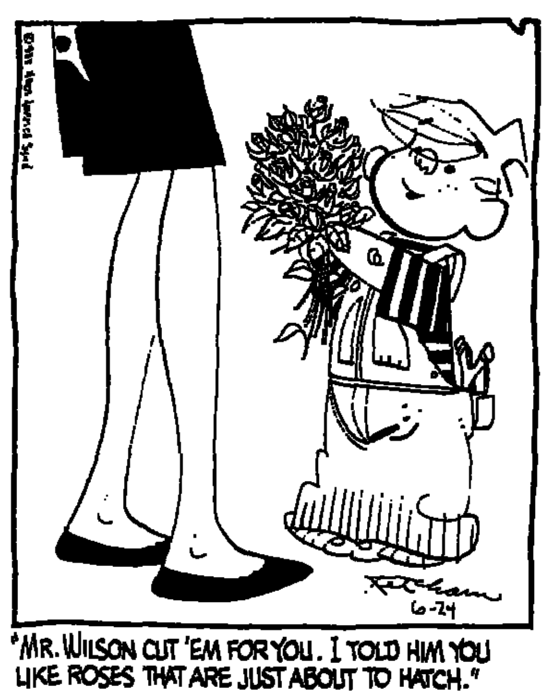
ACROSS

1 David Low's colonel
6 Pious insincerity
10 Quick pokes
14 Not express
15 U.S.S.R.-China river boundary
16 Doubly curved molding
17 City S of Gainesville
18 Actress Schneider
19 Strongly alcoholic
20 Police persuaders
22 African river
23 N.C. college
24 Hide treater
26 Full of lumps
30 Sapid
32 Pilate's "man"
33 Schoolroom fixture
35 Ghana's capital
39 Changed a bill
41 Fixes upon a stake
43 Lustrous velvet
44 Germ plasm element
46 Odd notion
47 Saudi neighbor
49 Proficient ones
51 Streisand
54 Big blow
56 Continually
57 Fabricated flimsily
63 Puerto ——
64 Unwritten
65 Subordinate
66 This, in Valencia
67 Sunder
68 Diacritical mark
69 Accepted
70 Comprehends
71 Porterhouse or sirloin

DOWN

1 Amorphous lump
2 Places
3 Suffix with myth or poet
4 Shop complex
5 Got in the game
6 Producer Ponti
7 Equals in effect, with "to"
8 Anesthetized
9 Furtive meetings
10 Country corn bread
11 On the other hand
12 Comedian Milton
13 Exodus feast
21 Glasgow's river
25 Nipa
26 Fellow
27 Glen Gray's Casa —— Orchestra
28 Prophetic sign
29 Free-style fracas
31 Basically alike
34 Sharpness
36 Very short film
37 Lessee's responsibility
38 Fixes a price
40 Doe and roe
42 Farinaceous
45 Etch
48 Big leagues
50 Career beginnings
51 Special Forces headgear
52 Dispatch boat
53 Right-hand page
55 City on the Rhone
58 Lake port
59 Military group
60 Run in neutral
61 Mother of Helen of Troy
62 Tough trip

DENNIS THE MENACE



"MR. WILSON CUT 'EM FOR YOU. I TOLD HIM YOU LIKE ROSES THAT ARE JUST ABOUT TO HATCH."

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

HOUTY

YIPTE

ENBOCK

SUFOAM

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here:

(Answers tomorrow)

Friday's | Jumbles: ONION SOGGY VASSAL NEWEST
Answer: What a philanderer thinks the world does— OWES HIM A LOVING

WEATHER

EUROPE	HIGH C	HIGH F	LOW C	LOW F	
Algarve	23	73	17	63	fr
Amsterdam	13	55	11	52	sh
Athens	28	82	18	64	fr
Barcelona	22	72	13	55	o
Belgrade	22	72	14	57	cl
Berlin	16	61	14	57	r
Brussels	17	63	11	52	cl
Bucharest	22	72	11	52	cl
Budapest	17	63	14	57	r
Copenhagen	17	63	11	52	cl
Costa Del Sol	26	79	21	70	fr
Dublin	15	59	9	48	o
Edinburgh	14	57	10	50	o
Florence	22	72	16	61	cl
Frankfurt	22	72	10	50	cl
Geneva	20	68	9	48	fr
Helsinki	24	75	14	57	fr
Istanbul	25	77	14	57	fr
Las Palmas	24	75	21	70	cl
Lisbon	22	72	15	59	cl
London	17	63	11	52	cl
Madrid	30	86	11	52	fr
Milan	18	64	12	54	cl
Moscow	19	66	12	54	o
Munich	13	55	10	50	sh
Nice	22	72	14	57	fr
Oslo	18	64	15	59	st
Paris	16	61	10	50	r
Prague	15	59	11	52	r
Reykjavik	13	55	10	50	cl
Rome	25	77	19	66	cl
Stockholm	26	79	11	52	fr
Strasbourg	18	64	11	52	sh
Venice	21	70	14	57	fr
Vienna	17	63	13	55	o
Warsaw	24	75	12	54	cl
Zurich	15	59	10	50	cl
MIDDLE EAST					
Ankara	25	77	4	39	fr
Beirut	—	—	—	—	na
Damascus	—	—	—	—	na
Jerusalem	28	82	17	63	fr
Tel Aviv	28	82	20	68	fr
OCEANIA					
Auckland	14	57	10	50	sh
Sydney	15	59	6	43	fr

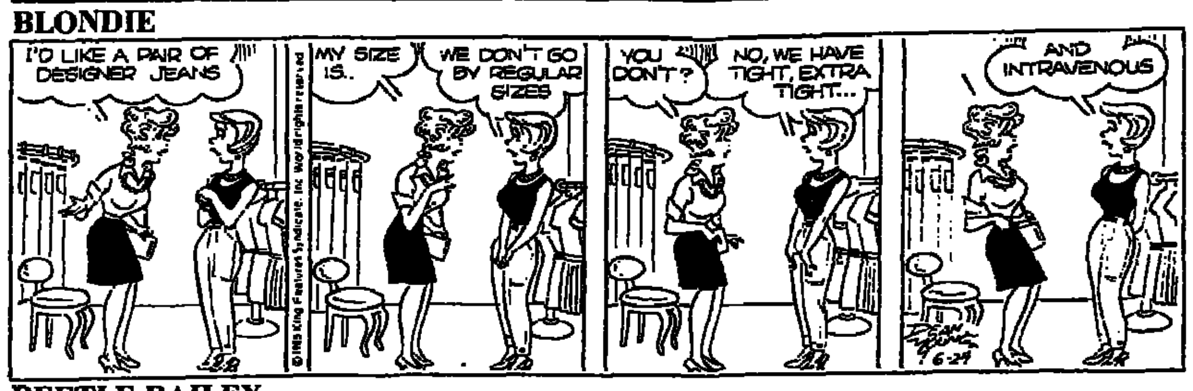
ASIA	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	32	90	26	79	o
Beijing	30	86	19	66	cl
Hong Kong	32	90	29	84	r
Manila	27	81	23	73	r
New Delhi	42	108	31	88	fr
Seoul	27	81	21	70	o
Shanghai	31	88	25	77	o
Singapore	30	86	25	77	o
Taipei	34	93	28	82	o
Tokyo	28	82	22	72	sh
AFRICA					
Algiers	32	90	17	63	fr
Cairo	37	99	22	72	fr
Cape Town	16	61	5	41	cl
Casablanca	23	73	19	66	cl
Harare	18	64	8	46	cl
Lagos	28	82	25	77	cl
Nairobi	23	73	6	43	fr
Tunis	30	86	21	70	fr
LATIN AMERICA					
Buenos Aires	20	68	14	57	o
Caracas	28	82	21	70	cl
Lima	22	72	15	59	cl
Mexico City	24	75	14	57	cl
Rio de Janeiro	26	79	17	63	fr
NORTH AMERICA					
Anchorage	17	63	6	43	fr
Atlanta	31	88	20	68	fr
Boston	29	84	18	64	cl
Chicago	30	86	15	59	pc
Denver	34	93	14	57	fr
Detroit	27	81	13	55	pc
Honolulu	31	88	23	73	fr
Houston	32	90	24	75	pc
Los Angeles	26	79	17	63	pc
Miami	30	86	25	77	st
Minneapolis	30	86	14	57	fr
Montreal	25	77	11	52	fr
Nassau	32	90	24	75	sh
New York	29	84	20	68	fr
San Francisco	17	63	14	57	fr
Seattle	17	43	10	50	pc
Toronto	24	75	15	59	cl
Washington	32	90	19	66	pc

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

MONDAY'S FORECAST — CHANNEL: Very choppy. FRANKFURT: Showers. Temp. 15 — 10 (59 — 50). LONDON: Rainy. Temp. 16 — 11 (61 — 52). MADRID: Fair. Temp. 30 — 11 (86 — 52). NEW YORK: Fair. Temp. 30 — 20 (86 — 68). PARIS: Showers. Temp. 18 — 12 (64 — 54). ROME: Showers. Temp. 19 — 17 (66 — 63). TEL AVIV: Fair. Temp. 29 — 20 (84 — 68). ZURICH: Showers. Temp. 15 — 10 (59 — 50). BANGKOK: Not available. HONG KONG: Not available. MANILA: Not available. SEOUL: Not available. SINGAPORE: Not available. TOKYO: Not available.

PEANUTS

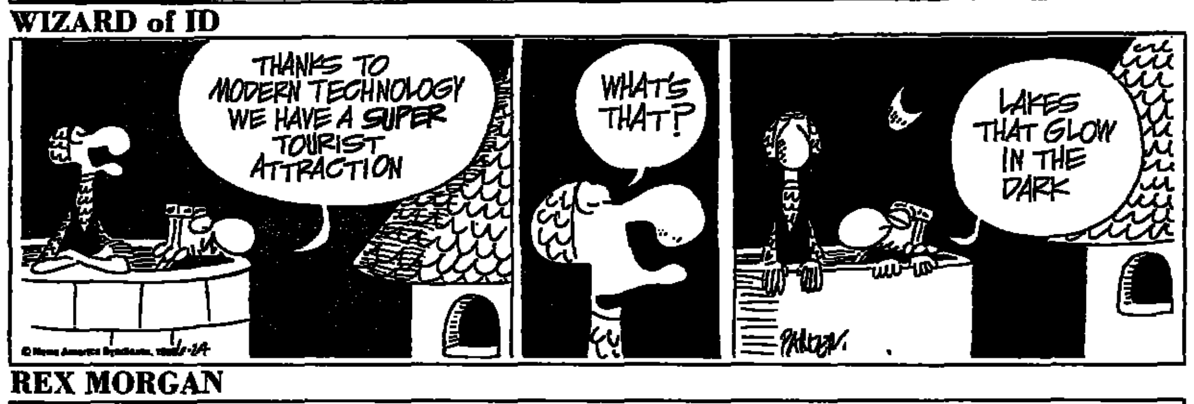
BLONDIE



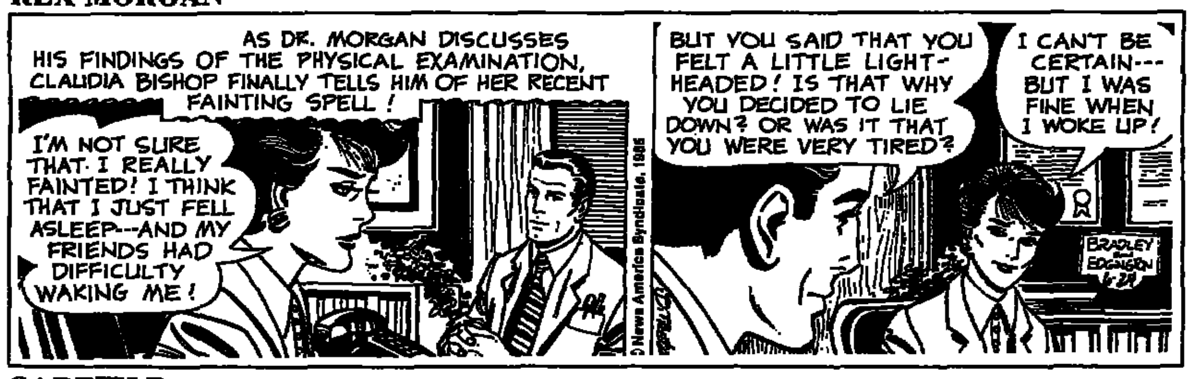
BEETLE BAILEY

ANDY CAPP

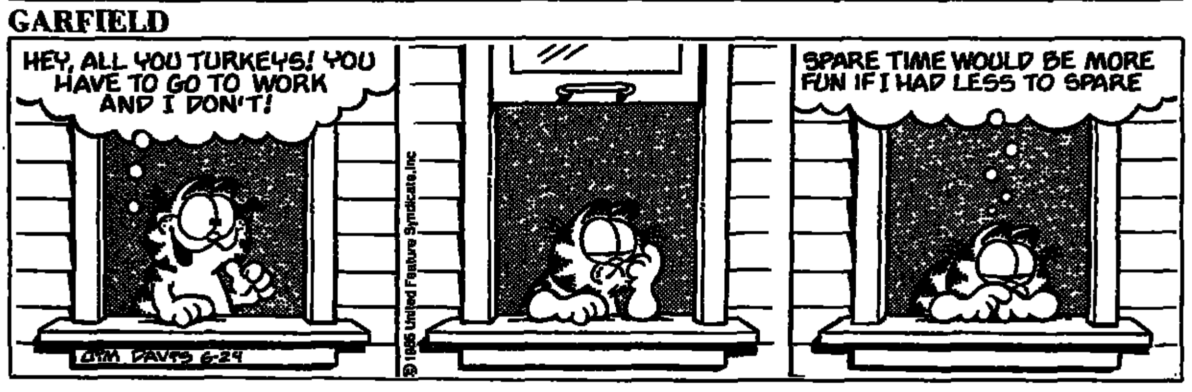
WIZARD of ID



REX MORGAN



GARFIELD



BOOKS

GERMANY TODAY: A Personal Report

By Walter Laqueur. 231 pp. $16.95. Little, Brown, 34 Beacon Street, Boston, Mass. 02106.

Reviewed by John Gross

FRANZ ALT is a well-known figure on West German television, one of a small group of political commentators who enjoy a far wider following in the Federal Republic than any of their colleagues in the press. Some time ago, he brought out a book in support of the West German peace movement that, according to Walter Laqueur in "Germany Today," "contained virtually nothing that had not been said many times before by other writers." Within a few months, however, it had sold more than 600,000 copies in hard cover; as the work of a television personality, it attracted greater interest than the political writings of Heinrich Böll, Günter Grass or any of their fellow literati.

Yet how many of us have ever heard of Franz Alt? The fact that his name means virtually nothing outside West Germany is a useful reminder of how relatively under-reported a country it is, and of how much we have to learn from a survey like Laqueur's — a shrewd, well-balanced blend of reportage and analysis that sets recent developments in perspective and provides a good deal of unfamiliar and often intriguing information.

Laqueur, who has written many works of contemporary history, was born in Silesia. Though he left Germany after the Nazis came to power, he brings to this book an intimate knowledge of German culture and society as they once were; at almost every stage of his inquiry he is conscious of change, of the extent to which prewar Germany and the traditions it preserved have gone forever.

At the end of World War II, for example, a quarter of the German population worked on the land. Today the figure is 6 percent and dropping; farming has become heavily mechanized — Laqueur met a successful dairy farmer who did not know how to milk a cow by hand — and the old-style village has virtually disappeared. The Lüneburg Heath, not long ago still the wild and largely uncultivated region celebrated in popular ballads, now includes among its amenities an amusement park. The Teutoburg Forest, sacred to generations of patriots as the place where Arminius defeated the Roman legions, has been tamed; one of its main attractions is a wildlife park called Safariland.

The transformation of urban life has been no less striking. City streets have more in common with their counterparts elsewhere in Western Europe than with streets in the same cities 60 years ago. Historic towns have changed character — Göttingen, once known almost exclusively for its university, is now an important engineering center. And as industry shifts course, the old industrial heartlands are no longer what they were. At Essen, only one coal mine is still operating, and Krupp has been replaced as the city's largest taxpayer by Coca-Cola, which has its West German headquarters there.

Most of the trends Laqueur describes have parallels in other advanced industrial societies. For anyone worried about a specifically "German problem" — as many Germans are — the picture he paints is basically reassuring. West German society as he depicts it is decent if rather dull; in spite of a few recent setbacks, its economy is still in good shape; democracy has taken root as it never did during the Weimar Republic. "All things considered, there is now not only more freedom in Germany than ever before in her history, but also more common sense and moderation," he writes.

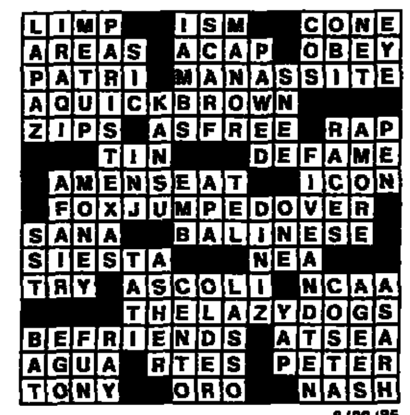
Yet the old immoderation has not disappeared entirely. Laqueur describes a meeting where he had a chance to watch some of the leading members of the Greens political alliance in action. They seemed to him to be gifted people, arguing their case persuasively, but what struck him most was "their excitement and shrillness; they seemed to be driven by some inner demons." Here as elsewhere he was moved to meditate on the perfectionism and relentlessness that have been such a feature of German history, the tendency to get carried away and look for extreme solutions.

The most obvious recent manifestations of this impulse have been on the fringes of youth culture and in intellectual life. Laqueur's two long chapters on "Young Germany" and on the intelligentsia are models of clear-headed diagnosis — all the more devastating, on the whole, for being soberly expressed. He discusses movies (there are some particularly enlightening comments on a prophetic film of the 1960s, "Tattooing"), upheavals in the education system, the spread of Cold War revisionism and the progress of violent protest movements, from the days of Rudi Dutschke to the more recent "Spontis" and "Autonomen," loose-knit groups that have largely jettisoned organization and ideology. Without taking such developments lightly, he insists on the need to keep them in perspective, to see them for the limited affairs they are.

One is left wondering whether extremism and excess can really remain the monopoly of the more or less intellectual classes. In one of his most valuable chapters, Laqueur analyzes the new mood of patriotism in West Germany, and argues strongly against confusing it with the specter of a Nazi revival. As co-director of the Wiener Library, one of the world's foremost centers of Holocaust documentation, he is not the man to be complacent on such a subject, and the reasons he gives are compelling. Still, as he points out, West Germany is the land of the Pied Piper — and after all the arguments and statistics, a tremor of unease lingers on.

John Gross is on the staff of The New York Times.

Solution to Friday's Puzzle



6/22/85

BRIDGE

By Alan Truscott

ON the diagramed deal East is discreetly passed when both his opponents took action. He felt sure that his partner's hand was worthless and that there was no future in entering the proceedings.

North-South began to go off the rails when North made a forward-going bid of two diamonds. In the face of a misfit, a simple rebid of two spades or a preference to two hearts was indicated. As it was, South should have been content to bid two spades. Instead he went haywire with a jump to three hearts, suggesting a six-card heart suit and extra values. He had neither of these, and as a result played in the wrong suit at too high a level.

East found his voice with a double, in spite of his poorly placed heart honors. When the spade ten was led to dummy's queen and his ace, he could not be sure about the location of the missing spade. He therefore returned the heart eight, and the declarer finessed the queen.

This was a slight misjudgment, and South went from bad to worse. He led the club king, throwing a diamond and allowing East to take the ace and lead the trump king. South could have saved a little by taking the ace and playing a third round of trumps, but he led a spade. West ruffed and led a diamond, allowing East to take his red suit winners and score a club at the finish.

NORTH
♠ K Q 9 5 4 2
♡ 4 3
♢ K J 10 9 8
♣ —

WEST
♠ 10
♡ 7 5 2
♢ 6 5 4 3
♣ 8 7 6 4 3

EAST
♠ A J 7 6
♡ K J 8
♢ A Q
♣ A 10 9 5

SOUTH (D)
♠ 8 3
♡ A Q 10 9 6
♢ 7 2
♣ K Q J 2

Both sides were vulnerable. The bidding:

South	West	North	East
1 ♡	Pass	1 ♠	Pass
2 ♣	Pass	2 ♢	Pass
3 ♡	Pass	4 ♡	Dbl.
Pass	Pass	Pass	

West led the spade ten.

Wimbledon: Rain, Other Drips, Traditional

By John Feinstein
Washington Post Service

LONDON — All was calm in the House of Commons on Friday, the business of British government being conducted in a quiet manner.

Outside, one tour bus after another pulled up to the curb, spitting out camera-toting tourists. Several yards away, traffic had stopped. Billowing black smoke was mixing with the rain and, as it cleared slightly, one could see a small truck, its front end on fire.

Many tourists on both sides of the street stopped and began taking pictures even as fire trucks fought their way through the chaos. As one bobby tried to shout the spectators back, he suddenly found a camera in his face.

"They think this is part of the show or something," he said angrily. "Every bloody June it's the same thing."

The fire was put out. The tourists got their pictures. The rain continued. Big Ben read 11:42.

London. Summer. Tourists. Rain.

Wimbledon.

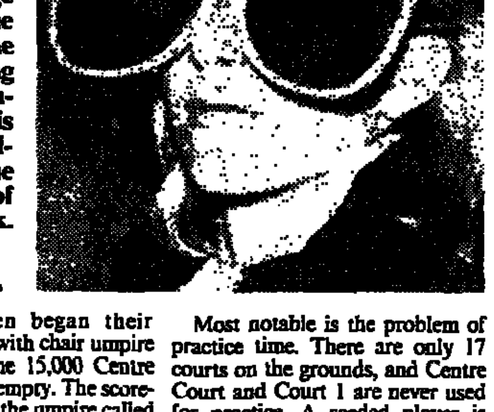
At 1:05 P.M. Saturday, after a morning of rain and an hour of sunshine, the tarpaulin was removed at Centre Court of the All England Tennis and Croquet Club. A lone mower was brought out to trim the court, on which there had been no play since last July 8.

Tradition holds that on the Saturday before the championships begin, exactly 48 hours before the first match, four female club members test the court with a set of doubles. Their match gets the grass "patted down" for play Monday.

Because of the rain, it was 2:52 P.M. when Mrs. I. Hume and Mrs. H. MacPherson took the court to play Mrs. A.R. Mills and Mrs. B. Peerless.

First names? "Not available," an official said.

Martina Navratilova tried out some large glasses, but she will be the one getting long looks at Wimbledon this week. Especially after the publication of her new book.



Reuters

As the women began their match, complete with chair umpire and ball boys, the 15,000 Centre Court seats were empty. The scoreboard kept score, the umpire called the points but no one was there — until, at 1-all, four reporters wandered in near the top of the stands.

At 2-all, a young security guard climbed to where the reporters were seated. "I'm terribly sorry," he said apologetically. "But this is a private game. Members only."

Of course. Tradition. Wimbledon. Strawberries and cream. Rain. Private game on Saturday.

Bulletin, as seen from an alley underneath the stands: At 6-6, it began to rain and the match was stopped. Not because the ladies were getting wet but because the court had to be kept dry.

Tradition. Whether at Royal Ascot or at Buckingham Palace or at the All England Club, one simply does not tinker with tradition. Tradition makes this the premier tennis tournament in the world. Yet, because this is Wimbledon, many of the amenities players take for granted elsewhere do not exist here.

Most notable is the problem of practice time. There are only 17 courts on the grounds, and Centre Court and Court 1 are never used for practice. A seeded player is granted — weather permitting — 30 minutes to practice on an outside court. If two seeds practice together, they can get 60 minutes.

If, as has been the case this year, there is little sunshine in the two weeks leading up to the tournament, the courts almost always are covered and everyone must scramble to find practice courts.

"I've driven 1,700 miles since we got here" two weeks ago "just looking for places we can practice," said Ian Barclay, coach of sixth-seeded Pat Cash, a semifinalist last year. "I think we may have used every grass court in England."

One who stayed away, arriving only Friday evening, was three-time men's champion John McEnroe. His late arrival had little to do with practice time, though. McEnroe and the British press have been at odds since he first made the semifinals in 1977.

Saturday morning, one of the British tabloids, over a front-page picture of McEnroe at Heathrow Airport, ran a headline that read: "Mac the Miserable."

Why was Mac deemed so Miserable? "He refused," the caption read, "to even reveal when girlfriend Tatum O'Neal would be arriving in London."

For the women, the week leading up to the championships is not so difficult. Most play in a grass tournament at Eastbourne, about an hour outside London. There, practice courts are plentiful, the atmosphere country-like and relaxed.

"I love the week at Eastbourne," said Martina Navratilova, who Saturday won the tournament for the sixth time. "I especially like it because every time I've won it, I've gone on" — five times, including the last three — "to win Wimbledon. It's important to me."

This week may not be so easy for Navratilova. Undoubtedly, she will breeze through her matches as she always does the first week at Wimbledon. But with her autobiography having just hit the shops here, Navratilova will be questioned about the book, in which she talks about her bisexuality.

Another tennis book is coming out this week, co-authored by Chris Evert Lloyd and husband John. Much of it is about their six years of marriage, including last year's much publicized, although temporary, separation.

They also were the subject of a huge piece in Sunday's London Times, "The Lloyds of Wimbledon," a much-ballyhooed "tell-all" about their lives on and off the tennis court.

Wimbledon. Rain. Strawberries and cream. Private game on Saturday. Rain.

Gossipy books? Ludicrous tabloid headlines?

Tradition.

SPORTS BRIEFS

Frost, Edwards Lead U.S. Golf Tournament

ATLANTA (UPI) — David Frost of South Africa shot a bogeyless 8-under-par 64 Saturday to tie Danny Edwards for the third-round lead in the $500,000 Atlanta Golf Classic.

Edwards shot 68. He and Frost, who joined the U.S. tour for the first time this year after three years on the European circuit, both closed with birdies to stand at 202 after 54 holes. That gave them a two-stroke lead over two-time PGA champion Ray Floyd and second-round leader Steve Pate. Floyd shot 68, Pate 71.

Pate, with the two best rounds of his six-month pro career, held a one-stroke lead over Edwards on Friday by backing up an opening 67 with a 66. Last week's U.S. Open runner-up, Tze-Chung Chen of Taiwan, faded from the spotlight when he skied to 75 after an opening 68.

Ueberroth Says Pirates Cannot Be Moved

PITTSBURGH (AP) — The commissioner of major league baseball, Peter Ueberroth, said Friday he would veto any attempt to move the financially troubled Pittsburgh Pirates to another city and warned cities in search of major league franchises not to "raid other communities."

"I would not approve the sale if outside groups want to move" the Pirates, he said. "We're not going to use moving vans for baseball teams."

Pershing Square Sets Pacing Stakes Marks

NEW YORK (AP) — Pershing Square, a 3-year-old colt driven by Bill O'Donnell, set stakes and track records Saturday night at Roosevelt Raceway in winning the $482,560 Messenger Stake, the first leg of pacing's Triple Crown.

Pershing Square trailed Dragon's Lair, the 3-5 favorite driven by Michel LaChance, before winning a furious stretch duel by a head. The winner covered the mile (1.6 kilometers) in 1:52 2/5.

For the Record

Barry McGuigan, the new featherweight champion, was officially notified Friday by the World Boxing Association that he must defend his title against top-ranked Bernard Taylor by Oct. 8. (UPI)

The Belgian Grand Prix, postponed June 2 because of a deteriorating track, has been rescheduled for Sept. 15, according to Bernie Ecclestone, president of the Formula One Constructors Association. (UPI)

Five Bulgarian soccer players — Plamen Nikolov, Borislav Mikhailov, Emil Velev and Emil Spasov of Levski Spartak, and CSKA's Christo Stoichkov — have been "excluded from soccer for life," the Yugoslav news agency, Tanjug, reported. Their teams were disbanded last week after a violent cup final. (UPI)

Marco Lauria, 60, an Italian doctor, says he will bicycle the 1,550 miles to Liverpool carrying a message of friendship from Milan's mayor to the mayor of the English city whose soccer fans were blamed for the Brussels riot last month. (AP)

Quotable

Billy Gardner, fired as manager of the Minnesota Twins, on being asked if he had any advice for his replacement: "None. He probably operates different than me. Besides, if they wanted my advice they wouldn't have fired me."

SPORTS

NCAA Approves Crackdown On College Rules Violators

By Gordon S. White Jr.
New York Times Service

NEW ORLEANS — The National Collegiate Athletic Association has overwhelmingly approved the strongest sanctions it has ever enacted against colleges and coaches who violate rules governing recruiting, amateurism, academic standards and ethics.

The sanctions, approved Friday by NCAA member institutions at a special convention, will take effect Sept. 1. They include suspension for an athletic team for as long as two seasons if it is found guilty of major infractions twice in a five-year period.

Facing what some convention delegates have described as an "integrity crisis" in collegiate athletic programs, the representatives also agreed to suspend or dismiss any coach involved in major violations and to suspend the college's right to recruit athletes in the sport. A repeat offender would be prohibited from awarding new athletic scholarships in the sport for two years.

The special meeting — only the fifth the NCAA has held since its founding in 1906 — was called by the association's 44-member Presidents' Commission, which was concerned about a series of athletic scandals in recent years. The commission, made up of university and college presidents and chancellors, submitted 12 proposals at the meeting. Each was approved almost unanimously by the 435 schools represented at the convention.

"I do not believe I can overstate the level of concern that presidents and chancellors feel regarding the integrity crisis in college athletics," Dr. John W. Ryan, president of Indiana University and chairman of the commission, told the gathering. He said it was the purpose of both the convention and the commission "to do as much as legislation can do to eliminate corruption in intercollegiate athletics."

There are 797 member institutions in the NCAA. All 284 Division I members — those schools with major athletic programs — were present, aware that the main thrust of the legislation was directed at their programs.

Among the delegates were a record 198 college presidents and chancellors, who dominated the session. At the regular annual NCAA conventions athletic directors and faculty representatives are more in evidence and often control the decisions on the floor.

Since 1980, the NCAA has placed at least 20 teams on probation. Violations in recent years have occurred at such schools as Southern California, Southern Methodist, Florida, Arizona State and UCLA.

Some of the colleges cited gave illegal inducements to athletes so they would attend that school. The inducements often included cash, automobiles, jobs for friends of athletes, apartments and other items of material value.

Many programs were also cited for violations of NCAA academic regulations, such as changing classroom transcripts to make an athlete eligible to compete.

Often athletes at cited schools had been assigned to summer school makeup courses in order to make them eligible. The athletes never attended those courses but were given passing grades anyway.

Southern California, for instance, admitted more than 300 athletes during a 10-year period who did not meet minimum academic standards for admission.

In a more recent scandal, members of the Tulane University basketball team were indicted on charges of shaving points. It has been charged that drugs and cash were used as payment to them.

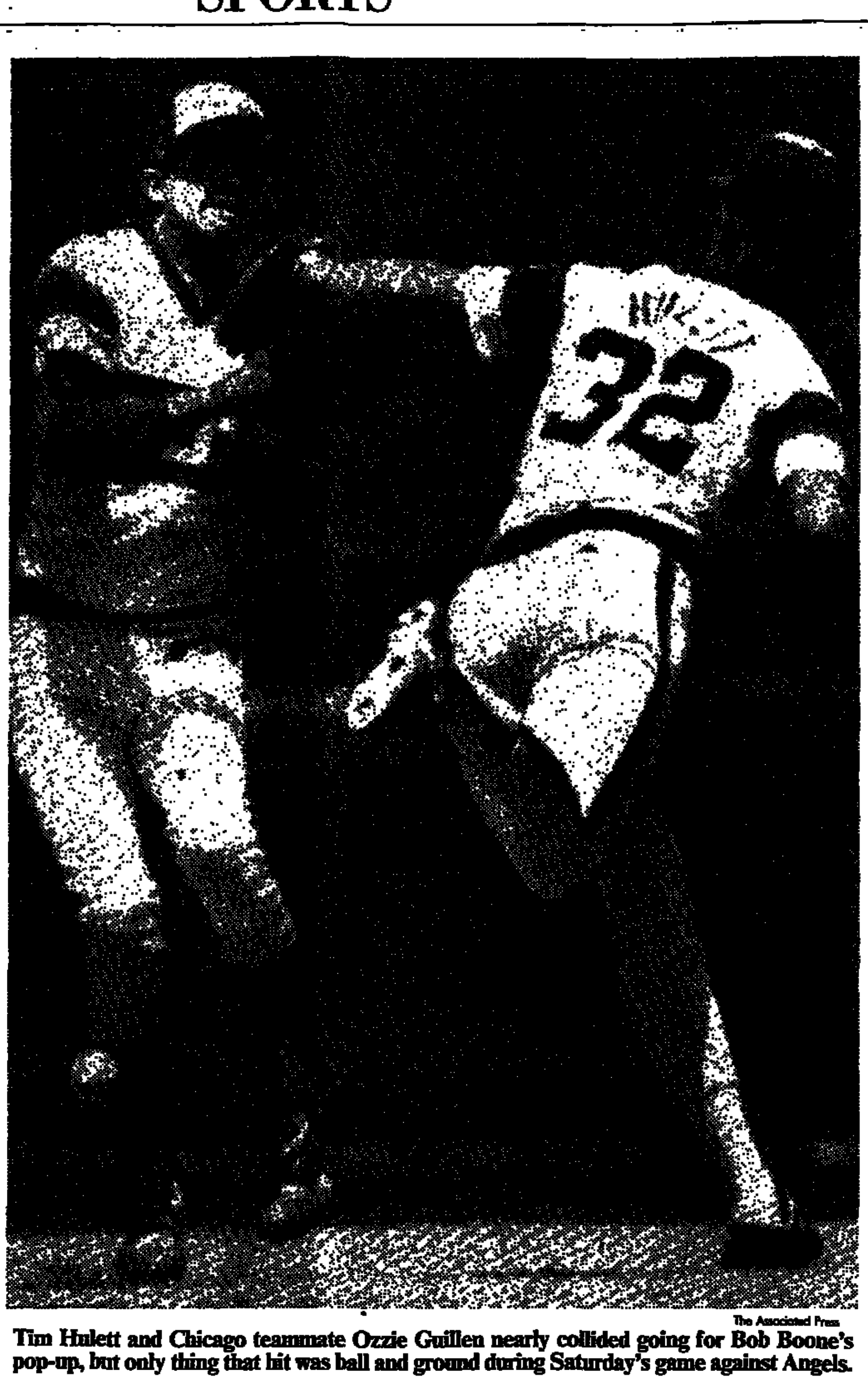
Ryan said the Presidents' Commission will soon address such problems as drugs in collegiate athletics.

Among the actions taken by the convention were the following:

- It ruled that the first major infraction in a five-year period would be penalized by a minimum two-year probation in the sport with a one-year moratorium on television games and postseason competition. Coaches and other staff members will be subject to suspension without pay for one year and may not recruit for a year.
- It adopted a resolution calling for sanctions to be created for athletes who knowingly violate NCAA rules by such actions as accepting material benefits to attend a certain institution. This is the first attempt to include an athlete directly in the penalties handed out by the NCAA. It is expected that such a proposal will be offered at the NCAA's regular annual convention in January.
- It required that all Division I colleges submit an annual report to the NCAA showing that entering freshmen athletes comply with academic standards for entrance and showing the rate of graduation of senior athletes.
- It made it mandatory that an independent audit be conducted of a college's athletic department finances, addressing, in particular, the use of donations from booster or fan clubs. The college president or chancellor will be specifically responsible for these finances.

The provisions of the repeat-offender rule are retroactive. If a school's team sport had been cited for a violation in September 1983, for example, its program will be suspended for at least a year if it commits another major infraction by September 1988.

In the past, there were no specific penalties set by the NCAA for violations. The NCAA Committee on Infractions decided the degree of severity of penalties. It could put a school on probation for one, two or three years or longer. It could forbid television appearances, bowl games, and could wipe out victories. Wichita State, Southern Methodist, Oklahoma and other institutions have been put on probation in football or other sports twice within a five-year period, but their programs were not suspended.



The Associated Press

Tim Hulett and Chicago teammate Ozzie Guillen nearly collided going for Bob Boone's pop-up, but only thing that hit was ball and ground during Saturday's game against Angels.

Cards Hand Cubs 11th Straight Loss, Move Into 1st Place

Compiled by Our Staff From Dispatches

ST. LOUIS — Curt Ford, in his first major-league at bat, drove in the winning run in the 10th inning Saturday night to give the St. Louis Cardinals a 2-1 victory over Chicago, handing the Cubs their 11th straight loss.

The Cubs, who have the longest losing streak in the major leagues this season, managed only three hits. They have lost all five games against the Cardinals this season.

The Cardinals' seventh victory in eight games put them in first place in the National League East, one-half game ahead of Montreal. The Expos defeated the Mets, 5-4, in a 10-inning thriller in New York.

Ozzie Smith led off the home 10th with a single to center and took second on a wild pitch by the Cubs' reliever, Lee Smith. After Tom Nieto struck out, Ford singled to score Smith.

"I told him in the eighth inning, 'You're going to win the game for us,'" said the Cardinals' manager, Whitey Herzog.

Ford was called up from Louisville, Kentucky, of the American Association on Monday to replace Terry Pendleton, who was placed on the 15-day disabled list with a pulled hamstring.

"No, I wasn't nervous," Ford said. "I might be nervous twice the next time. I like to hit in situations like that .... every time I walk between the lines, I want to be a hero, the big shooter."

Willie McGee of the Cardinals had two hits in four at-bats, the sixth game in a row he has had two or more hits.

In New York, second baseman Wally Backman's error on pinch-hitter Terry Francona's ground ball allowed Dan Driessen to score from third base as the Expos ended the Mets' five-game winning streak.

Driessen opened the 10th with a double and advanced to third on Hubie Brooks' ground out to first. After Tim Wallach was walked intentionally, Francona hit a double-play ball to Backman, who bobbled it and allowed Driessen to score.

SATURDAY BASEBALL

The Mets had taken a 3-2 lead in the seventh on Rusty Staub's pinch-hit three-run homer, his 94th as a pinch hitter putting him 12th on the all-time major league list. The Mets scored their fourth run that inning on a walk to Keith Hernandez and singles by Gary Carter and Danny Heep.

But the Expos got a run in the eighth, then tied the score in the ninth on Steve Nicosia's two-run double after Wallach opened with a double and pinch-hitter Skeeter Barnes singled.

Reds 4, Braves 3: In Cincinnati, Dave Parker's third hit of the game, with one out in the ninth, scored Eddie Milner from third and beat Atlanta.

Padres 2, Giants 1: Steve Garvey homered with one on in the fourth and Eric Show and Tim Stoddard held San Francisco to two hits before 53,375, a San Diego record for a regular-season day game.

Phillies 5, Pirates 2: Juan Samuel hit his sixth homer, with two on and one out in the bottom of the ninth, to lift Philadelphia past Pittsburgh.

Dodgers 6, Astros 3: In Los Angeles, Ken Landreaux and Mike Scioscia each drove in two runs against Houston and Fernando Valenzuela struck out a season-high 14. New York's Dwight Gooden and Pittsbugh's Jose DeLeon have also fanned 14 this year.

Red Sox 5, Blue Jays 3: In the American League, Bill Buckner singled home two runs in the eighth inning in Toronto as Boston rallied in a game delayed more than three hours by rain. Toronto's manager, Bobby Cox, was ejected during the fifth-inning rain delay for arguing that the game should be halted. The Blue Jays led 3-2 at the time.

Yankees 4, Tigers 0: Ron Guidry checked Detroit on four hits and Don Baylor hit a two-run homer for visiting New York. Guidry pitched his second straight shutout and did not allow Detroit more than one hit in any inning.

Angels 6, White Sox 3: California's Juan Beniquez tripled and hit a two-run homer and Mike Brown added a two-run homer in Chicago.

A's 6, Indians 4: Carney Lansford's 10th homer, a two-run shot in the 11th, beat Cleveland in Oakland, California.

Mariners 2, Royals 1: Bret Saberhagen pitched a perfect game for seven innings in Kansas City, Missouri, but balked home Seattle's Gorman Thomas with the go-ahead run in the eighth.

Twins 3, Rangers 2: In Minneapolis, Minnesota, Gary Gaetti singled in one run and Kent Hrbek doubled in two in the sixth to beat Texas.

Orioles 3, Brewers 2: Cal Ripken singled home Lee Lacy with the winning run in the sixth as Baltimore won in Milwaukee. *(UPI, AP)*

■ Carlton on Disabled List

For the first time in his 20-year major-league career, Philadelphia Phillies left-hander Steve Carlton was placed on the disabled list Saturday because of an injury to his pitching shoulder, The Associated Press reported.

Officials of the National League team said the four-time Cy Young Award winner was put on the 21-day disabled list because of a strain of the left rotator cuff.

Despite a 2.43 ERA in 77 2-3 innings, Carlton, 40, is 1-7 this season after starting 13 games. He has allowed 68 hits.

Carlton has not been throwing as hard as he has in previous years, and he had some trouble with the left shoulder in spring training.

Twins Fire Gardner, Hire Miller to Manage

Compiled by Our Staff From Dispatches

MINNEAPOLIS — The Minnesota Twins, struggling to stay out of the cellar in the American League West, fired their manager, Billy Gardner, Friday night and replaced him with the Baltimore Orioles' pitching coach, Ray Miller. The Twins responded by winning, 3-2, against the Texas Rangers.

Miller, 40, had never managed in the major leagues, but helped the Orioles produce five 20-game winners and two Cy Young Award winners in his six years as their pitching coach.

Until their victory Friday night, the pitching-poor Twins had lost 19 of 25 games.

Gardner, 51, became the Twins' manager on May 22, 1981, after a 20-year playing career and 12 years as a manager in the minor leagues.

This season, the Twins lost nine straight in May, then won 10 straight before losing 10 in a row. During the winning streak, the Twins led the American League in batting. But the team earned-run average has ballooned to the worst in the league.

Miller has been with the Baltimore organization since 1971, following a career as a minor league pitcher.

Miller was replaced in Baltimore by Ken Rowe, 41, the club's minor-league pitching instructor since 1980.

In Miller's first major-league game as manager, the Twins' Mark Salas hit a two-run single with two out in the bottom of the ninth to beat Texas.

The Rangers' Charlie Hough had carried a six-hit shutout into the inning, but walked lead-off batter Tom Brunansky. After Roy Smalley singled, Brunansky was forced at third on Gary Gaetti's sacrifice bunt attempt.

Tim Teufel walked to load the bases, Smalley scored on pinch-hitter Randy Bush's ground out to make it 2-1 and Salas hit a 1-0 pitch to right to score Gaetti and Teufel.

FRIDAY BASEBALL

Tigers 6, Yankees 4: In Detroit, Lou Whitaker hit his third home run in as many games during a four-run sixth inning and Kirk Gibson clouted a mammoth homer in the seventh against New York. Rickey Henderson had two homers for the Yankees.

Blue Jays 7, Red Sox 2: Jimmy Key pitched a five-hitter in Toronto and Lloyd Moseby had three hits and two RBI to help beat Boston. Key recorded his fifth consecutive triumph and second complete game in lowering his ERA to 2.30.

Angels 5, White Sox 2: In Chicago, Mike Brown hit a two-run triple and Juan Beniquez collected four consecutive singles to lead the Angels into first place in the AL West.

Brewers 13, Orioles 10: Cecil Cooper drove in four runs with three hits and the Brewers sent 14 batters to the plate in a nine-run sixth inning in Milwaukee. Baltimore had scored six runs in the first.

A's 9, Indians 1: In Oakland, California, Donnie Hill scored twice and had two RBI and Don Sutton recorded his 286th major league victory by beating Cleveland. Dave Kingman hit his 17th homer of the year for Oakland.

Mets 6, Expos 3: In the National League, in New York, Mookie Wilson homered and had four RBI and Rafael Santana drove in the go-ahead run in the sixth as the Mets beat Montreal.

Reds 4-4, Braves 2-5: Claudell Washington tripled and hit a two-run homer as Atlanta won the second game of a doubleheader in Cincinnati. In the opener, Dave Parker hit a three-run homer and Tom Browning scattered six hits over seven innings for the Reds.

Cardinals 7, Cubs 5: In St. Louis, Jack Clark tripled with the bases loaded in the seventh inning to beat Chicago. Kurt Kepshire scattered 10 hits over eight innings for the triumph, his second over the Cubs and Dennis Eckersley in less than a week.

Padres 6, Giants 1: Kevin McReynolds had three hits and two RBI in San Diego and Jerry Royster hit a grand slam against San Francisco.

Dodgers 7, Astros 2: In Los Angeles, Pedro Guerrero got three hits, including his 15th home run this year, to help defeat Houston.

Phillies 4, Pirates 3: Juan Samuel's one-out double in the bottom of the 16th scored Derrel Thomas from second base to beat Pittsburgh in Philadelphia. *(UPI, AP)*

Somalian Finds Winning Races Easiest Thing in U.S.

By Sally Jenkins
Washington Post Service

WASHINGTON — Abdi Bile Abdi is no longer puzzled by the strange Americans with their taste for beer and the loathsome cheese and tomato stuff called pizza. Nor is he surprised when they call him by the wrong name, Abdi Abdi, which is often.

He settled the matter of his name one day when he walked over to George Mason University's track coach, John Cook, smiled and demonstrated his excellent English. "Calling me that," Cook recalled him saying, "is like me calling you Cook Cook."

The correct manner of address, should you happen to encounter the runner in the Somalian capital of Mogadishu, or the more likely setting of the Seoul Olympics in 1988, is Abdi Bile — the last name pronounced "Billy" in Somalia.

Recently, he became the NCAA champion in the 1,500 meters.

Bile, a sophomore who carried the Somalian flag in the Los Angeles Olympics last summer, was the first foreign track runner to be recruited by George Mason, which he chose because, among other reasons, it was near Washington and thus close to the Somalian embassy. Cook recruited him sight unseen on the advice of a Somalian runner at Fairleigh Dickinson University in Rutherford, New Jersey.

WP

Abdi Bile Abdi

If Bile had some trouble adjusting to his new surroundings, Cook has been equally confounded by his star athlete at times. Prior to his 1,500 heat in Austin, Bile startled his coach by announcing that he was required by his Moslem faith to fast and could eat only between sunset and sunrise.

They finally compromised. Bile ate a meal and won the 1,500. The agreement was that he would return to his fast after the championships and forgo competition in any more races until the summer.

"You don't go crazy with Abdi," Cook said. "If I go to war with him, I'd lose in the long run because I'd lose his trust. I said, 'Hey, let's just go through the NCAAs.' Now, everybody wants him to run. I want him to run, too. It's against my nature not to. But I tell people who want him that he's not running now, he's fasting."

Bile has not always been comfortable in the United States, and frankly misses Somalia, where he plans to return and go into his family's import-export business after earning a business degree. The worst time was when he was a recent arrival and trying to learn the confusing business of being a college freshman in the United States.

"At first, I had culture shock," he said. "The climate, the food, all that stuff. Everything was new. I was trying to learn the way of living in this country."

There are two other Somalian runners at George Mason now — freshmen Ibrahim Okash and Ahmed Ismail — both largely recruited by Bile. Prior to their arrival, however, Cook was virtually Bile's only close acquaintance. Serious about his faith, Bile was shocked by some of the goings-on in his dorm, and took refuge with his coach.

"There were a lot of things he saw that hurt him — let's face it, the drugs, the alcohol, the sex," said Cook. "It's a Friday night at college, can you imagine? But now I think he's learned to take the good in us and leave the other things alone. He doesn't get caught up in the societal habits."

Bile is training — while he is fasting — for two meets in Europe and Africa this summer, with the aim of competing in the World Cup track meet in Australia in October. To him, his religion and running are not in conflict, which Cook gradually has realized.

Until his NCAA championship, Bile's career had been a strange and not always successful one. One concern for Cook has been that Bile is 6 feet 2 (1.8 meters) and 150 pounds (68 kilograms). Bile puts in considerably less time running than do most of his counterparts because he has been accident prone.

At the NCAA meet last year, he was warming for the final when he stepped on a switch box and broke a bone in his foot. He missed most of the indoor season this year after he ruptured a vertebra lifting a paint bucket in a theater class. He thought it was empty, but it was a full, 50-gallon (52-liter) container.

"Theater, right?" Cook said. "We thought it was a nice, safe class."

The most disappointing incident of his career, however, came during the Los Angeles Olympics. Bile ran well in the semifinal heat of the 1,500, only to discover afterward he had been disqualified. A Brazilian had fallen during the race, and Bile was accused of bumping him.

"The guy who fell down was running behind me," he said. "How do you push someone when they are behind you? I just know that I made the final, and it was tragic."

The incident makes the 1988 Olympics all the more inviting. Cook contends he could be the favorite.

"I believe that with patience and a little luck, Abdi is going to be one of the great milers in the world," he said. "I knew all the time I had an athlete. It's just been a question of getting him to the starting line."

He Might Try Changing the Boat's Name

Los Angeles Times Service

LONDON — Maybe Ted Macnamara was not destined to cross the Atlantic. The intrepid British sailor made his fourth try last week and wound up in retreat.

Macnamara, 65, an unemployed stone cleaner, set out from Campbeltown, Scotland, in a five-foot (1.5-meter) craft named Marmaduke Jinks IV.

His outboard engine failed almost immediately, and he hoisted sail. But his boat started drifting backward, and he went to sleep.

On waking, he had no idea where he was and, having no distress flares, he began flashing a hand torch. This was spotted, and he was rescued by the Campbeltown coast guard.

He had traveled four miles — in the wrong direction.

This was Macnamara's first attempt since last year, when he set out from Land's End, England, in a barrel. When he boarded the barrel, it capsized.

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

FRIDAY'S RESULTS
NATIONAL LEAGUE
(First Game)

Atlanta 000 000 020—2 8 0
Cincinnati 000 301 00x—4 8 0

Shields, Dedmon (6), Garber (7) and Owen; Browning, Power (8) and Knicely. W—Browning, 6-5. L—Shields, 1-2. Sv—Power (9). HR—Cincinnati, Parker (11).

(Second Game)

Atlanta 020 011 020—5 13 2
Cincinnati 200 000 011—4 7 1

Camp, Forster (6), Sutter (8) and Benedict; Tibbs, Hume (7), Franco (9) and Van Gorder, Knicely (9). W—Camp, 2-2. L—Tibbs, 4-9. Sv—Sutter (10). HRs—Atlanta, Murphy (17), Washington (7).

Chicago 000 000 212—5 13 0
St. Louis 101 100 40x—7 10 1

Eckersley, Smith (7), Frazier (7) and Lake; Kepshire, Campbell (9), Dayley (9), Lahti (9) and Nieto. W—Kepshire, 4-5. L—Eckersley, 7-. Sv—Lahti (5). HR—Chicago, Speier (3).

Montreal 000 003 000—3 8 0
New York 000 022 11x—6 10 0

Mahler, St. Claire (6), Lucas (7) and Butera; Aguilera, Gorman (6), Leach (6), Sisk (7) and Carter. W—Sisk, 2-5. L—Mahler, 1-1. HR—New York, Wilson (2).

Houston 000 110 000—2 5 3
Los Angeles 120 013 00x—7 9 1

Scott, Dowley (5), Solano (6) and Ashby; Hershiser, Niedenfuer (8) and Scioscia. W—Hershiser (7-1); L—Scott (5-4). HR—Los Angeles, Guerrero (15).

Pittsburgh 000 000 300 000 000 0—3 12 2
Philadelphia 000 100 002 000 000 1—4 13 1

Rauschel, Robinson (7), Holland (8), Guante (9), Scurry (12), Winn (14) and Pena; Denny, Carman (8), Rowley (9), Tekulve (10), Tucker (13), Anderson (16) and Virgil, Diaz. W—Anderson (2-2); L—Winn (2-2).

San Francisco 010 000 000—1 3 1
San Diego 001 010 04x—6 12 2

Blue, Williams (5), Minton (6) and Brenly; Wojna, Stoddard (7), Lefferts (9) and Bochy. W—Wojna (1-0); L—Blue (3-2). HRs—San Francisco, Brenly (8); San Diego, Royster (1).

AMERICAN LEAGUE

Boston 000 100 001—2 5 0
Toronto 101 111 02x—7 8 1

Hurst, Clear (6) and Sullivan; Key and Martinez. W—Key, 5-2. L—Hurst 2-7. HR—Toronto, Upshaw (7).

New York 102 000 010—4 8 0
Detroit 000 004 11x—6 8 0

Niekro, Bordi (8) and Hassey; O'Neal, Hernandez (8) and Parrish. W—O'Neal, 2-1. L—Niekro, 7-6. Sv—Hernandez (14). HRs—New York, Henderson 2 (9). Detroit, Whitaker (12), Gibson (14). Evans (13).

California 001 003 001—5 10 0
Chicago 002 000 000—2 7 1

McCaskill, Clements (8), Moore (9) and Boone; Bannister, Nelson (6) and Fisk. W—McCaskill, 2-5. L—Bannister, 5-6. Sv—Moore (5). HR—California, DeCinces (7).

Texas 000 001 100—2 6 0
Minnesota 000 000 003—3 8 0

Hough and Slaught; Schrom and Salas. W—Schrom, 6-5. L—Hough, 5-8. HR—Texas, Parrish (13).

Baltimore 601 000 003—10 14 1
Milwaukee 100 039 00x—13 15 1

Boddicker, Stewart (6), T.Martinez (6), Snell (6), Dixon (8) and Dempsey; Higuera, Cocanower (1), Gibson (7) and Schroeder. W—Cocanower, 1-0. L—Stewart, 2-3. Sv—Gibson (4). HRs—Baltimore, Dempsey (5), Young (5), Ripken (11).

Cleveland 010 000 000—1 6 0
Oakland 032 300 02x—9 15 0

Behenna, Creel (4) and Bando; Sutton, Ontiveros (8) and Tettleton. W—Sutton (6-5); L—Behenna (0-2). HR—Oakland, Kingman (17). Seattle at Kansas City, ppd., rain).

SATURDAY'S RESULTS
NATIONAL LEAGUE

Atlanta 001 001 100—3 6 2
Cincinnati 002 000 101—4 12 0

Smith, Dedmon (7), Forster (9) and Benedict, Owen (9); Price, Robinson (8) and Knicely. W—Robinson, 1-0. L—Forster, 0-2. HRs—Atlanta, Horner 2 (9).

San Francisco 000 010 000—1 2 0
San Diego 000 200 00x—2 4 0

Laskey, Davis (8) and Brenly; Show, Stoddard (9) and Kennedy. W—Show, 6-4. L—Laskey, 1-9. Sv—Stoddard (1). HR—San Francisco, Davis (7). San Diego, Garvey (11).

Pittsburgh 200 000 000—2 5 0
Philadelphia 000 100 013—5 9 1

McWilliams, Robinson (8), Candelaria (9) and Ortiz; Hudson, Carman (8) and Diaz. W—Carman, 1-1. L—Robinson, 2-2. HRs—Pittsburgh, Ray (3). Philadelphia, Samuel (6).

Montreal 010 010 011 1—5 10 1
New York 000 000 400 0—4 8 3

Palmer, Reardon (7), Burke (7), St. Claire (9) and Nicosia; Darling, Orosco (8), McDowell (9) and Carter. W—St. Claire, 2-1. L—McDowell, 5-2. HR, New York, Staub (1).

Chicago 000 010 000 0—1 3 0
St.Louis 000 000 100 1—2 10 0

Sutcliffe, Smith (9) and Lake; Forsch, Horton (5), Dayley (9) and Nieto. W—Dayley, 1-0. L—Smith, 3-2.

Houston 000 100 020—3 6 4
Los Angeles 010 050 00x—6 8 1

Ryan, Calhoun (7) and Bailey; Valenzuela and Scioscia. W—Valenzuela, 7-7. L—Ryan, 8-.

AMERICAN LEAGUE

California 040 000 110—6 8 1
Chicago 001 010 010—3 7 0

Lugo, Cliburn (7) and Boone; Lollar, Spillner (7) and Fisk. W—Lugo, 2-1. L—Lollar, 4. Sv—Cliburn (2). HRs—California, Brown (2). Beniquez (5), Boone (3). Chicago, Walker (11).

New York 100 102 000—4 11 1
Detroit 000 000 000—0 4 0

Guidry and Hassey; Petry and Castillo. W—Guidry, 8-3. L—Petry, 9-5. HR—New York, Baylor (12).

Boston 110 000 021—5 9 0
Toronto 010 200 000—3 8 3

Nipper, Crawford (5), Stanley (7) and Gedman; Musselman, Acker (6), Lavelle (8), Caudill (9). W—Stanley, 3-3. L—Acker, 4-2. HRs—Boston, Barrett (2). Toronto, Fernandez (2).

Cleveland 000 020 001 00—4 8 3
Oakland 000 021 010 02—6 12 2

Ruhle, Thompson (7), Clark (8), Waddell (8), Easterly (9), Barkley (9) and Willard, Bando (9); McCatty, Atherton (5), Howell (9) and Heath. W—Howell, 7-3. L—Barkley, 0-1. HR—Oakland, Heath (7). Lansford (10).

Seattle 000 000 020—2 4 0
Kansas City 000 000 001—1 6 0

Swift, Vande Berg (9), Nunez (9) and Scott, Kearney (8); Saberhagen, Quisenberry (8) and Sundberg. W—Swift, 2-1. L—Saberhagen, 7-4. Sv—Nunez (7).

Texas 100 100 000—2 6 0
Minnesota 000 003 00x—3 8 0

Mason, Rozema (6), Schmidt (8) and Slaught; Viola, Davis (9) and Laudner. W—Viola, 8-6. L—Mason, 5-7. Sv—Davis (7).

Baltimore 000 201 000—3 13 1
Milwaukee 010 100 000—2 8 1

McGregor, Aase (8) and Dempsey; Darwin, McClure (6) and Moore. W—McGregor, 6-6. L—Darwin, 6-6. Sv—Aase (2). HR-Milwaukee, Simmons (2).

Major League Standings

AMERICAN LEAGUE
East Division

	W	L	Pct.	GB
Toronto	41	26	.612	—
Detroit	37	27	.578	2½
Boston	36	30	.545	4½
Baltimore	34	30	.531	5½
New York	33	31	.516	6½
Milwaukee	30	33	.476	9
Cleveland	21	44	.323	19
West Division				
California	37	29	.561	—
Chicago	34	29	.540	1½
Oakland	34	32	.515	3
Kansas City	33	32	.508	3½
Seattle	30	36	.455	7
Minnesota	29	35	.453	7
Texas	26	41	.388	11½

NATIONAL LEAGUE
East Division

	W	L	Pct.	GB
St. Louis	38	27	.585	—
Montreal	39	29	.574	½
New York	37	28	.569	1
Chicago	34	30	.531	3½
Philadelphia	27	38	.415	11
Pittsburgh	22	42	.344	15½
West Division				
San Diego	40	27	.597	—
Los Angeles	34	30	.531	4½
Cincinnati	34	31	.523	5
Houston	34	32	.515	5½
Atlanta	28	38	.424	11½
San Francisco	26	41	.388	14

Football

USFL Standings

EASTERN CONFERENCE

	W	L	T	Pct.	PF	PA
x-Birmingham	12	5	0	.706	422	293
x-New Jersey	11	6	0	.647	412	363
x-Memphis	11	7	0	.611	428	337
x-Tampa Bay	10	7	0	.588	394	384
x-Baltimore	9	7	1	.559	330	250
Jacksonville	8	9	0	.471	365	396
Orlando	5	13	0	.278	308	484
WESTERN CONFERENCE						
x-Oakland	12	4	1	.735	442	338
x-Denver	11	6	0	.647	427	347
x-Houston	10	7	0	.588	523	357
Arizona	8	10	0	.444	376	405
Portland	6	11	0	.353	262	401
San Antonio	4	13	0	.235	275	423
Los Angeles	3	15	0	.167	266	456

(x-clinched playoff berth)

Friday's Result
Orlando 17, Los Angeles 10

Saturday's Result
Memphis 38, Arizona 28

Tennis

WOMEN'S CHAMPIONSHIPS
(at Eastbourne, England)
SINGLES
Semifinals

Martina Navratilova (1), U.S., def. Manuela Maleeva (3), Bulgaria, 6-1, 6-2.
Helena Sukova (5), Czechoslovakia, def. Wendy Turnbull (10), Australia, 4-6, 7-6 (7-3), 6-4.

Finals

Navratilova def. Sukova, 6-4, 6-3.

DOUBLES
Semifinals

Martina Navratilova and Pam Shriver, U.S., def. Barbara Potter and Sharon Walsh-Pete, U.S., 6-2, 6-4.
Kathy Jordan, U.S., and Elizabeth Smylies, Australia, def. Hana Mandlikova, Czechoslovakia, and Wendy Turnbull, Australias, 6-2, 5-7, 6-1.

Finals

Navratilova and Shriver def. Jordan and Smylie, 7-5, 6-4.

Transition

BASEBALL
American League

MILWAUKEE—Placed Bill Schroeder, catcher, on the 15-day disabled list with a strained right elbow.
SEATTLE—Activated Mike Moore, pitcher, from the 15-day disabled list. Optioned Bill Wilkinson, pitcher, to Calgary of the Pacific Coast League.

National League

NEW YORK—Recalled Terry Leach, pitcher, from Tidewater of the International League. Optioned Joe Sambito, pitcher, to Tidewater.
PITTSBURGH—Announced that Johnnie LeMaster, shortstop, has been put on the 15-day disabled list with an injured ankle. Recalled Sammy Khalifa, shortstop, from the Pacific Coast League.

FOOTBALL
National Football League

NEW ENGLAND—Signed Rick Donnelly, punter.
SAN DIEGO—Signed Terry Lewis, cornerback.

COLLEGE

CREIGHTON—Named Tony Barone basketball coach.

New Research Portrays Nero as Ruthless but Less Baffling

By Eric Pace
New York Times Service

THE young Emperor Nero became known as one of the worst Roman rulers by ordering his mother's death, persecuting Christians and Jews, and committing other cruel and bizarre deeds; it has been suggested that he declaimed poetry (not, as the popular saying has it, that he fiddled) while Rome was ablaze with a fire he had caused.

Nero's behavior has come under fresh scholarly discussion, nourished by recent study of ancient Roman chronicles, sculpture, ruins and coins. Though he is still seen as profoundly ruthless, new research makes him seem more understandable by emphasizing that his reign was shaped by his serious love for the arts, among other personal traits, and by complicated political problems.

Stepson of the Emperor Claudius, he was born in A. D. 37, became emperor in 54 and reigned for 14 years. Widely hated, and challenged by revolts, he committed suicide in A. D. 68, ending a dynasty begun by the Emperor Augustus.

A scholar at Oxford University, Miriam T. Griffin, maintains that Nero suffered from a "lack of intellectual equipment to deal with the strains of the complex political system" of his day.

Griffin, an American who is a tutor in ancient history and a fellow of Oxford's Somerville College, is the author of a new book, "Nero: The End of a Dynasty," which weighs ancient writings about him. It also details his artistic enthusiasm, citing coins and products of the arts during his reign. Other experts say the book breaks new ground in the emphasis it puts on weaknesses in the Roman political system.

Professor Glen Bowersock, who specializes in ancient history at the Institute for Advanced Study in Princeton, New Jersey, said earlier writings had "run the gamut from sensationalist accounts of the madman on the throne of the Caesars" to more balanced appraisals of a "policy-making ruler."

"We've gone back and forth over the decades and centuries," said Bowersock. "The popular image of Nero has always been the much darker one, and I think that's much nearer the truth." Even so, he noted, Nero's reign was "a great time for literature" and some of the emperor's deeds "were welcome to many people," including "taking the Greeks out from the rule of the Roman Empire and making them a free people."

Bowersock contended that at the beginning of his reign Nero "was already somewhat unbalanced, and by the end he was a monomaniac with no regard for human life — a monster of the order of Idi Amin." But Griffin, in a telephone interview from her Oxford home, took a somewhat less unfavorable view. "Nero was a man of taste, rather than intellect," she said, "and by the time of his death, I think, he was losing his mental balance.

"I don't think he was actually insane, but I think he was in a panic. He didn't respond very effectively" to a threatened rebellion "and he tended to have feelings of persecution even before it."

Drawing partly on recent scholarship about the coinage of Nero's time, Griffin's book emphasizes what she calls his "genuine passion for the visual, musical and literary arts." Andrew Wallace-Hadrill, a lecturer in ancient history at the University of Leicester, England, noted that Griffin's study, published in the United States and in Britain by Yale University Press, "takes that side of him more seriously than earlier books."

Scholars have been trying to extract clues about Nero's character from sculpture portraying him as a boy. Cornelius C. Vermeule, curator of classical art at the Museum of Fine Arts in Boston, wrote in The American Journal of Archeology in 1982 that a depiction on a fragment of an ancient marble relief had "something spoiled and petulant about the face." The Metropolitan Museum of Art has a bronze portrait bust on display. The assistant curator of Greek and Roman art, Maxwell L. Anderson, noted that the sculptor had given his young subject a sober expression, as was the custom in almost all imperial portraits of that period. The portrait, he said, "doesn't seem to show any of the character that eventually revealed itself."

A long-held view, buttressed by ancient writings, has been that Nero's reign started well, after his mother, Agrippina, had him made emperor. John Pollini, a professor of classical art and archaeology at Johns Hopkins University, said: "The first few years were pretty good; Nero had good advisers." Yet Bowersock noted that, within a year of taking power, Nero caused the death of Claudius's son Britannicus, who had been expected to become emperor. Bowersock argued that "what we see in the more sensational events of Nero's reign — the murder of Agrippina, the fire, the persecution of the Christians — all of that was there from the beginning."

Ill feelings between Nero and his mother are presented in Griffin's book as involving Agrippina's jealousy of Acte — an imperial freedwoman with whom Nero had an affair — and of Poppaea Sabina, who became his second wife.

Wallace-Hadrill found this view unsatisfactory, seeing the killing of Agrippina as "part of a pattern of court intrigue, as a political move, an attempt to protect his political security." And Pollini emphasized the power Agrippina wielded over her son.


Worcester Art Museum
Bust of Nero when he was a teen-ager.

Five years later, in A. D. 64, fire laid waste to much of Rome. As Griffin puts it in her book, some ancient writers "imagine Nero indulging in an act of wanton and malicious destruction." One "in fact says that the pretext was Nero's distaste for the ugliness and chaos of old Rome."

Pollini, emphasizing that influential ancient writers had a strong anti-Nero bias, said, "I don't believe at all that Nero had anything to do with the burning of Rome." Griffin says "the rumors of arson" deserve skepticism, and she cites recent findings indicating that Nero was fond of some of his quarters that were damaged by the fire, because subsequent building was similar.

"The idea of his aesthetic glee" at the fire, Griffin writes, also seems to lie behind the story that Nero, "on hearing the news, recited the 'Capture of Ilium' as he watched the flames." One ancient author reported the story as rumor, she notes, and two others presented it as fact and said Nero gave the recital in public, dressed in stage costume. Wallace-Hadrill and Pollini agreed that the story was unlikely.

In the end Nero could not overcome underlying political problems. What is new about Griffin's account, Wallace-Hadrill said, "is the greater emphasis she puts on weaknesses inherent in the political system of the early Roman Empire in accounting for Nero's downfall — and the way she relates the weaknesses in his character to the broader context of the weaknesses in the system."

Bowersock said: "One of the points I would stress particularly, and I miss a little in Miriam's book, is the importance of the armies on the periphery of the empire. What really began to make the domination of Nero totter were the movements of Roman troops on the frontiers. In other words, this was a case where the periphery contributed to the overthrow of the center."


Did Nero declaim while Rome burned? Scholars doubt it.

LANGUAGE

It Ain't Necessarily BBC*

By Henry Pleasants

LONDON — "It's a formidable undertaking, illustrative of the problems associated with irrevocable decisions, comparable to the lamentable and probably irreparable consequences of chivalric behavior inspired by despicable discriminatory attitudes, its implications applicable to many other problems arising from our electoral system."

Don't try to make sense of it. Just read it aloud and see if you entertain any doubts about which should be the accented syllable in 11 of those 40 words.

As a longtime resident of London and a regular listener of BBC and the independent ITV, I have become fascinated with accents, not because of what they tell me about the speaker's geographical origin but because of where the stress falls in multiple-syllable words.

My fascination began, I think, the first time I heard a newsreader speak of a con*tro*versy. As a native of Philadelphia's Main Line, I was brought up to say *con*troversy, the accent on the first syllable.

More recently I have begun to make note of stressed syllables in other words that do not accord with what I have always assumed to be correct. I wince when I hear, as I often do: ale*a*tory, app*lic*able, cen*trif*ugal, chi*val*ric, com*par*able, de*spic*able, discrimin*a*tory (the *a* as in may), *dis*tribute, distri*but*ed, elec*tor*al, ex*em*plary, for*mid*able, illus*tra*tive, intimi*dar*ory, irre*par*able, irre*voc*able, la*men*table, pyra*mid*al (the *i* as in sigh), u*ri*nal (ditto), etc.

I thought for a time that these — to my ears — deviations might be just another example of such common variances between American and British English as those encountered in vocabulary: *lift* for *elevator*, *bonnet* for *hood*, *boot* for *shoe* or *trunk compartment*, *ring* for *phone* or *call*, and so on, all easily accommodated by Britons and Americans resident for any length of time in one another's countries.

Consultation with the Oxford English Dictionary indicated otherwise. Most, if not all, syllable stresses or accentuations given in the OED conform to what I was taught at home and at the Montgomery County Day School in Wynnewood, Pennsylvania. What I was hearing week after week from BBC and ITV staff and those with whom they spoke was not English pronunciation as laid down by the OED. Is there, I asked, no supervision? Are there no guidelines?

There are, indeed. BBC has a Pronunciation Unit to which pronunciation problems may be referred, and the Pronunciation Unit has at its collective elbow, as of 1981, a 40-page booklet, "The Spoken Word — a BBC Guide," compiled by no less an authority than Robert Burchfield, chief editor of the Oxford English dictionaries. Judging by what we hear on BBC TV and radio, not much use is being made of either the Pronunciation Unit or Burchfield's guide.

Under "Pronunciation" (as distinct from "Vocabulary") Burchfield lists more than 100 words, those, as he puts it, "that give the most offence when pronounced otherwise than as indicated below," and provides what he tolerantly designates "a preferred pronunciation." His preferences follow, hardly surprisingly, the stresses assigned by the OED.

There are surprises, however, for Americans and probably for many British, too, although rarely in the matter of stresses. I certainly had not expected to be told that *ate* should rhyme with *bet*, or that both *trait* and *restaurant* should be pronounced without sounding the final *t*. Nor have I heretofore pronounced *homogeneous* and *homosexual* with the first syllable rhyming with *Tom*.

About stresses and accents Burchfield is aware that language is always changing, hence his lenient decision to prefer rather than to dictate or prescribe. And change is sometimes acknowledged and implicitly accepted, however reluctantly, as with, for example, *medicine*. He prefers two syllables, but adds in a footnote that the word "is so often pronounced as three syllables, even by doctors, that the use of the three-syllable form may go unnoticed if used consistently."

One admonition may come as a surprise to Americans. "Avoid," he says, "the American 'ar' as in tempor*ar*ily and necess*ar*ily."

Would he rob us of "It Ain't Necessarily So"?

Henry Pleasants writes primarily about opera and music and is the author of several books on these subjects. William Safire is on vacation.

PAGE 4 FOR MORE CLASSIFIEDS

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